



February 17, 2004

AGENDA ITEM 6 c

TO: MEMBERS OF THE INVESTMENT COMMITTEE

- I. SUBJECT:** Permissible Equity Market Analysis Update
- II. PROGRAM:** Global Equity
- III. RECOMMENDATION:** Information only.
- IV. ANALYSIS**

Attachment 1 is an updated permissible equity market policy analysis prepared by Wilshire Associates. Roz Hewsenian will present the analysis and will be available to answer any questions the committee may have.

Background

Over the fifteen years CalPERS has been investing in international equity markets, Wilshire Associates has prepared and presented for Investment Committee approval lists of countries in which investments were to be permitted and lists of countries in which investments were to be either restricted or prohibited.

On November 13, 2000, the Investment Committee approved significant changes to this country investibility screening process including:

1. Enhancing the screens to include Financial Transparency, Political Stability, and Prohibitions on Abusive Labor Practices, including incorporating the International Labor Organization (ILO) Declaration of Fundamental Principles and Rights to Work.

Members of the Investment Committee
February 17, 2004

2. Deciding to hire active emerging market managers to screen at the company level for the same factors, with the addition of the Global Sullivan Principles, and to report annually to the Committee.

At its February 19, 2002 meeting, the Investment Committee approved a new Permissible Equity Market list and directed Wilshire to update the analysis annually.

On January 9, 2002, the active emerging market managers were interviewed and selected by the investment Committee based in part on their ability to screen for CalPERS' investability and geopolitical factors shown in Attachment 2. Funding of these managers began on July 31, 2002.

The current permissible equity market list was presented by Wilshire and approved by the Investment Committee at the February 18, 2003 Investment Committee meeting. At its April 14, 2003 meeting, the Investment Committee approved a one-year cure period for countries falling below the cutoff point of the analysis.

For the year ending December 31, 2003, CalPERS' emerging market portfolio returned 52.29%, net of fees, and was the top performing portfolio in Global Equity, as well as for the entire Fund. Since its inception on July 31, 2002, the emerging markets portfolio has returned 33.97%, net of fees, annualized. However, CalPERS' emerging markets portfolio trails the performance of the unconstrained emerging markets benchmark by 4.59% since inception. This equates to an opportunity loss of \$83 million. Similarly, the AIMR composites for CalPERS' external managers' other emerging markets clients outperformed CalPERS' account, in aggregate, by 7.31%.

Possible Benchmark Changes for 2005

In 2005, two major index providers are proposing changes to the countries in their benchmarks. They propose moving Taiwan and South Korea into the developed market index and adding Cyprus, Slovenia, Saudi Arabia and Jordan to the emerging market index.

Currently, the CalPERS permissible equity market list includes few Asian countries. Should this benchmark change occur, it would leave CalPERS with a large underweight in Asia and a large overweight in South America, Africa, and the Middle East. If the Philippines were not included in CalPERS' permissible list in 2005, then there would be no investment in emerging Asia under the proposed index construction, unless the CalPERS 2005 permissible list includes more Asian countries than the 2004 list.

Table 1 shows CalPERS' custom emerging index weights by region, adjusted for the permissible equity market list, should the benchmark change be implemented. The 1.1% weight to Asia in Table 1 represents the Philippines which is currently on the permissible equity market list but in the "cure period".

Members of the Investment Committee
February 17, 2004

Table 1

Region	Potential FTSE All Emerging Index	Resulting CalPERS Custom Emerging Market Index
Asia	44.2%	1.1%
Europe	10.8%	9.6%
South America	25.0%	51.0%
Africa & Middle East	20.0%	38.3%

Staff is concerned that should the proposed benchmark changes in 2005 occur, these changes will move the CalPERS portfolio further from the prevailing definition of emerging markets, given the current permissible equity markets policy.

V. STRATEGIC PLAN:

This agenda item advances CalPERS Strategic Plan, Goal IV: Assure that sufficient funds are available, first, to pay benefits and second, to minimize and stabilize employer contributions.

VI. RESULTS/COSTS:

Changes to CalPERS' permissible equity market list will result in transaction costs. Staff will work to mitigate those costs by taking advantage of available crossing opportunities and transitioning the assets over a reasonable period of time.

There is an annual cost of between \$800,000 to \$1 million per year for subcontractors for research on some factors in the Wilshire permissible equity market analysis. Expenditures since the Investment Committee approved the new country screening process at its November 13, 2003 meeting through December 31, 2003 are \$2.7 million.

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**Permissible Equity Markets
Investment Analysis
February 2004
Executive Summary**

Background

- The purpose of this annual report, completed specifically for CalPERS, is to provide a framework for evaluating a market's ability to support institutional investment. It is not intended to evaluate the current attractiveness of any individual market; that decision is delegated to the appropriate investment manager.
- The permissible markets analysis is based on a seven-factor model defined by the Investment Committee of CalPERS. There are three country factors (Political Stability, Transparency, and Productive Labor Practices) and four market factors (Market Liquidity and Volatility, Market Regulation/Legal System/Investor protection, Capital Market Openness, and Settlement Proficiency/Transaction Costs). Compared to the 2002 analysis, there was a reduction in the number of factors as the CalPERS' Investment Committee approved combining Settlement Proficiency and Transaction Costs into one factor starting with the 2003 analysis.
- Based on the factor definitions, Wilshire utilized third party sources that provided an evaluation of all or a specific part of a factor.
- The country factors are given a 50% weighting of the total score, while the remaining 50% weighting is given to the market factors. Since there are only three country factors, each receives proportionately more weight than each of the four market factors. This weighting scheme was determined by the CalPERS' Investment Committee at its February 2002 meeting. Each factor and its sub-factors are scored on a three-point scale, where a score of three is the highest.
- The analysis reviews 27 countries: Argentina, Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Jordan, South Korea, Mexico, Malaysia, Morocco, Pakistan, Peru, Philippines, Poland, Russia, South Africa, Sri Lanka, Taiwan, Thailand, Turkey, and Venezuela.

Findings

- Generally, information for this year's report was more readily available, in better detail with greater clarity than last year. Thus, the overall transparency regarding these markets is improving.
- Generally countries' scores improved over the last few years. In the 2002 report, the final scoring ranged from a high of 2.63 out of a possible 3.00 to a low of 1.15. The 2003 scores ranged from a high of 2.75 to a low of 1.25. The overall country scores further improved in this year's analysis with countries ranging from a high of 3.00 to a low of 1.50. Of the 27 countries, 17 countries improved their scores, 7 countries had lower scores, and 3 stayed the same.
- The greatest improvements from last year were experienced by Poland and the Philippines, while the greatest declines were experienced by Argentina, Peru, and Sri Lanka.
- CalPERS' experience with the restricted list of permissible countries, which went into effect April 1, 2002, can be reviewed for the period it has existed. The permitted list excluded more than 25% of the available market capitalization, and resulted in an over-weight to the more economically sensitive market sectors. Thus the current list of countries will have, and have had, greater sensitivity to stock market swings. There was a definite reduction in exposure to the non-discretionary areas of the economy like resources and utilities, with an increased exposure to technology and other economically-sensitive sectors.
- From April 1, 2002-December 31, 2002, the restricted Custom CalPERS FTSE Emerging Markets Index, which includes only those 14 countries that the Board deemed permissible in 2002, trailed the broader standard FTSE Emerging Markets Index by 3.4%. During 2003, the Custom CalPERS FTSE Emerging Markets Index trailed the standard Index by 6.7%. Over the entire period during which this permissible country policy has been in effect (April 1, 2002-December 31, 2003), the Custom CalPERS FTSE Emerging Markets Index underperformed the standard FTSE Index by 5.5% on an annualized basis.
- The increased concentration caused by the reduced diversification benefit of limiting the number of countries and their available market capitalization most likely increased the investment volatility observed in this period. Further, the policy forced the increased exposure to the more risky economic sectors of the emerging equity markets.
- Wilshire also looked at the performance of those countries that were excluded from the permissible country list but scored above 1.50. These included India, Jordan, and Thailand in 2002 and Columbia, India, Malaysia, Morocco, Thailand, and Sri Lanka in 2003. This Index of countries outperformed both the Custom CalPERS and standard FTSE Emerging Market Indices during the periods.
- Lastly, this policy had an overall negative impact on performance of 7.3% since inception when comparing CalPERS' external emerging markets managers to each one's fully discretionary investment results.

Conclusion

- The CalPERS Board has included countries that score 2.0 or above. This year, that demarcation would include the following countries: Brazil, Chile, Czech Republic, Hungary, Israel, Jordan, Malaysia, Mexico, Poland, South Africa, South Korea, and Taiwan.
- The impact of drawing the line at 2.0 results in Argentina, Turkey and Peru, which were on the permissible list last year, to fall below the Board's cut-off. If the Board continues its one-year "cure" policy, where a country can remain on the list another year despite a fall in score below 2.0, then these countries can remain on and would be joined by Malaysia, which moved up above a score of 2.0. This would bring the number of permissible countries to 15. The Philippines, which had been on the list, was extended the one-year cure period last year because its score had dropped below 2.0. In the 2004 report, The Philippines' score rose significantly above Wilshire's past threshold of 1.5, but not enough to meet the 2.0 threshold.
- There are two countries that reached 1.99 as a result of steady increases in scores over the last three years, India and Thailand. Wilshire has been in touch with both countries and their improvement in score and rise in world stature attest to their increased strength as investment markets. Perhaps to improve diversification, increase the opportunity set and take advantage of the momentum both these countries have shown, the Board may wish consider these countries as special cases.
- In the past, Wilshire has recommended drawing the line at 1.5. This year the line being drawn at 1.5 would include all, but two countries, underscoring the improvement in countries' development. We looked at the impact of the performance results of the countries that had scored between 1.5 and 2.0 since the inception of the new analysis. It is important to note that a market capitalization weighted return of these countries' markets outperformed both the unrestricted FTSE Emerging Markets Index and the CalPERS' Custom Emerging Market Index. Since 2001, the opportunity cost has been nearly 20%.



Permissible Equity Markets Investment Analysis

**Prepared for
The California Public Employees'
Retirement System**

February 2004

Table of Contents

Introduction	1
The Appeal of Emerging Markets Investing	1
Developed and Emerging Markets	2
Evaluation Methodology	3
Scoring	10
Impact from Last Year	13
Impact to Performance and Sector Weights	17
Conclusion	19
Alternative Scenarios	20
Appendix	22

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Permissible Equity Markets Investment Analysis and Recommendations

Introduction

The purpose of this report is to review the various constraints, opportunities, and risks associated with investing in foreign capital markets. The specific goal of this analysis is to establish a framework for evaluating individual non-US public stock markets to assess their ability to support institutional investment. It is not intended to evaluate the current attractiveness of any individual market; that decision is delegated to the appropriate investment manager(s).

This analysis focuses on the emerging markets. An emerging country/market is classified by the World Bank as having a low or middle-income economy, regardless of its particular stage of development. Low and middle-income economies are currently defined as those with a 2002 gross national income ("GNI") per capita below \$9,076. While all countries that fit this economic profile are considered emerging, not all are considered investable. This analysis evaluates the markets' investability. However, for the purpose of this analysis, American Depository Receipts (ADRs) or Global Depository Receipts (GDRs), which are traded in approved markets, are permissible investments, provided that the issuer's home market is permissible¹ as required by the CalPERS' Investment Committee action in 2002.

The Appeal of Emerging Markets Investing

Economic growth has constituted the reason for investing in the emerging markets, including superior relative expected returns and an expanding opportunity set for investment. Last year the emerging markets collectively out-performed their developed markets counterparts globally. Over time, many emerging markets have also undertaken wide-ranging institutional reforms, which have increased their appeal to foreign investors. These have included: stock exchange modernization; establishment of central clearing and settlement corporations and central depositories; establishment and empowerment of securities regulatory agencies; decreases in commission rates and other transaction charges; stricter accounting, auditing and information disclosure requirement; and establishment of insider trading rules.

Progress towards political openness in many countries has created governments that are more receptive to free market policies and increased foreign investment. Government officials realize that for the capital markets to develop, they must create an environment attractive to both domestic and foreign investors with safeguards in place to guarantee property rights and proficient settlement arrangements. Further, these countries and

¹ ADRs and GDRs are "receipts" for securities of companies domiciled outside of the country where the securities are traded; i.e. Royal Dutch Shell, a Netherlands-based company, trades in the U.S. in ADR form.

markets have developed more enlightened labor practices. A productive workforce, the CalPERS' Investment Committee believes, is a critical factor in economic growth and, ultimately, equity market success.

Wilshire believes that these markets provide an expanded opportunity set for investment and diversification. However, not all countries present meaningful opportunities for institutional investors. The potential for rapid growth is often offset by a high degree of risk associated with investing in developing countries.²

Developed and Emerging Markets

The developed and emerging markets are listed in Exhibits I and II, respectively. The list of developed countries has remained relatively stable over time. The most recent addition to this list is Greece, which was moved to "developed" status in 2001 after its inclusion in the European Monetary Union. Markets that are classified as developed are also deemed to be permissible for the purposes of this analysis and are not discussed further.

Exhibit I **Developed Global Equity Markets**

Australia	Japan
Austria	Luxembourg
Belgium	Netherlands
Canada	New Zealand
Denmark	Norway
Finland	Portugal
France	Singapore
Germany	Spain
Greece	Sweden
Hong Kong	Switzerland
Ireland	United Kingdom
Italy	United States

Emerging Markets

The list of emerging markets/countries reviewed in this report was drawn from the countries included in the emerging markets indices produced by the three major international equity market index publishers: Morgan Stanley Capital International, Standard & Poor's, and Financial Times. While all three publishers use some form of the World Bank definition of an emerging market, their emerging market country lists vary from each other slightly. Exhibit II shows the complete list of emerging markets countries

² Wilshire made every effort to obtain current information, though this report is being prepared during a period of rapid change in many emerging markets.

analyzed in this report, which is an amalgamation of the three publishers' 2003 country lists.

Exhibit II Emerging Global Equity Markets

Argentina	Israel	Russia
Brazil	Jordan	South Africa
Chile	Korea (South)	Sri Lanka
China	Mexico	Taiwan
Colombia	Malaysia	Thailand
Czech Republic	Morocco	Turkey
Egypt ³	Pakistan	Venezuela
Hungary	Peru	
India	Philippines ³	
Indonesia ³	Poland	

Evaluation Methodology

The permissible markets analysis has been conducted by Wilshire specifically for CalPERS since 1987 and has been periodically updated. The updates have reflected more recent data and changes in relevant factors as these markets have continued to evolve. In 1999, the CalPERS Investment Committee commenced a complete review of the analysis and looked to expand it since more information regarding countries and markets has become available. The analysis still reflects the fact that many factors contribute to the opportunities and risks of investing in the emerging markets.

The most significant change made in 1999 from previous years was that the CalPERS Investment Committee has delineated two broad sources from which risks in the emerging markets derive: Country factors and market factors. This change was first reflected in the 2002 report. Country factors pertain to the specific country as opposed to its capital markets. However, without strong country infrastructures to support the capital markets, the markets cannot truly be viable in the Investment Committee's view. The market factors pertain to market specific risks that determine whether the markets, themselves, can support institutional investment.

In the report produced in 2002, the number of factors was increased to eight from seven used in previous years. The past analyses contained two of what would now be categorized as country factors: country development and a very narrowly-defined political risk factor. After its review, the CalPERS Investment Committee eliminated country development as a relevant factor and instead included a *Transparency* factor and a *Productive Labor Practices* factor, which is defined later in this report. The CalPERS Investment Committee

³ As of December 8, 2003, Egypt, Indonesia, and the Philippines continue to remain on the Financial Action Task Force on Money Laundering's List of Non-Cooperative Countries and Territories.

also expanded the political risk factor to encompass overall political stability of which political risk was a part. Collectively, these factors are designed to evaluate the investability of these markets for institutional investors. The CalPERS Investment Committee, in recognition of the fast pace of change shall have this analysis completed annually.

The 2003 report reflected further changes. Specifically, the number of macro-factors was reduced back to seven from eight as two market factors in the 2002 report, Settlement Proficiency and Transactions Costs, were combined into one macro factor. While the equal weighting of country factors and the market factors was preserved from last year, the reduction in the number of market factors from five to four meant that the remaining four factors each received proportionally more weight.

The seven broad categories of factors (macro-factors) used in 2003 and again in 2004 to evaluate the risks of each country and its equity market are shown in Exhibit III.

Exhibit III
Country and Market Macro-Factors

<u>Country</u>	<u>Market</u>
Political Stability	Market Liquidity and Volatility
Transparency	Market Regulation/Legal System/Investor Protection
Productive Labor Practices	Capital Market Openness
	Settlement Proficiency/ Transaction Costs

Based on the factor definitions, Wilshire sought to identify credible third party sources that provided an evaluation of all or a specific part of a factor. In some cases, where appropriate, several sub-factors were identified and evaluated when the review of the third party sources indicated such to be most reflective of the intent of the factor definition.

To address the new or expanded country factors, CalPERS in two cases commissioned original research in 2001. This original research was conducted to determine the extent of

monetary and fiscal transparency and productive labor practices. Oxford Analytica, Ltd. of Oxford, England was selected to conduct the research on monetary and fiscal transparency, which is included as part of the broader *Transparency* factor. Verite of Amherst, MA, a non-profit research organization, was selected to conduct the research on *Productive Labor Practices*. These organizations shall also routinely update their research for CalPERS.

In 2002, Oxford Analytica's commission was expanded by CalPERS to update a portion of the *Market Regulation/Legal System/Investment Protection* macro-factor pertaining to *Shareholder and Creditor Rights* sub-factors. This information was reflected in the 2003 report.

There are two changes to note in this year's analysis. First, Accounting Standards, a sub-factor of the Transparency macro-factor, was excluded from the analysis because the International Accounting Standards, which is the benchmark for which we determine each country's adherence to, is currently undergoing significant revisions. However, an analysis of the impact of excluding this sub-factor, which can be found later in this report, shows that this change did not have a major impact on the outcome of our analysis. We plan on incorporating the Accounting Standards sub-factor in next year's analysis. Secondly, we have used different source data for some of the sub-factors within the analysis. For the Stock Exchange Listing Requirements sub-factor, we referred to the websites of all of the individual stock exchanges of the emerging market countries. Another area where we used a different source was Adequacy of Financial Regulation. Instead of using the Global Competitiveness Report as in prior years, we used data from eStandards Forum, which provides an ongoing and more thorough analysis of this sub-factor. Also, as we did in our 2003 report, we were able to contact the major master custodial banks and their respective securities dealers for a country by country update on the full array of taxes imposed on a US investor that are measured in the *Transaction Costs* sub-factor. In some cases these countries do not have tax treaties with the US in a manner similar to those the US has with many of the developed markets for tax-exempt US investors. In other cases the countries do not have the infrastructure to collect withholding tax from non-local investors, so they do not charge any. We also referred to the major brokerage houses for updated information on *Settlement Proficiency*.

Factor Descriptions

The definitions of the seven current macro-factors are provided below along with the sub-factors used to further refine and evaluate each macro-factor, where appropriate.

Country Factors

1. *Political Stability:* Political stability, including progress towards the development of basic democratic institutions and principles, such as guaranteed elimination of human rights violations (such as torture), and a strong and impartial legal system, all of which are necessary to ensure political stability, support free market development, and attract and retain long-term sources of capital. This macro-factor shall include the following sub-factors:
 - a) Civil Liberties: The extent to which countries permit freedom of expression, association and organizational rights, rule of law and human rights, free trade unions and effective collective bargaining, personal autonomy and economic rights. A score of 3 (highest) means that a country has relatively good civil liberties and a score of 1 (lowest) means they are poor.
 - b) Independent Judiciary and Legal Protection: The extent to which countries have independent judiciaries, the degree to which or the absence of irregular payments made to the judiciary and the extent to which there is a trusted legal framework that honors contracts and clearly delineates ownership of and protects financial assets. A score of: 1 (lowest) to 3 (highest) is used where the higher score indicates greater overall legal protection.
 - c) Political Risk: The extent to which there exists government stability, a high quality of socioeconomic conditions, and a positive investment profile. Toward these ends this sub-factor evaluates the extent of internal and external conflict, corruption, the military and religion in politics, law and order, ethnic tensions, democratic accountability and bureaucratic quality. A score of 1 (lowest) to 3 (highest) is used where the highest score means less overall political risk exists in that country.
2. *Transparency:* Financial transparency, including elements of a free press necessary for investors to have truthful, accurate and relevant information on the conditions in the countries and companies in which they are investing. This macro-factor shall include the following sub-factors:
 - a) Freedom of the Press: The structure of the news delivery system in a country and the laws and their promulgation with respect to their influence of the news, the degree of political influence and control, economic influences on the news and the degree to which there are violations against the media with respect to physical violations and censorship. A score of 3 means the press in a country is free and a score 1 means it is not free⁴.

⁴ Freedom House.

- b) Monetary and Fiscal Transparency: The extent to which governmental monetary and fiscal policies and implementation are publicly available in a clear and timely manner, in accordance with international standards. A score of 1 (lowest) to 3 (highest) is used where the higher score indicates the greatest transparency.
 - c) Stock Exchange Listing Requirements: This sub-factor evaluates the stringency of stock exchange listing requirements for public companies with respect to frequency of financial reporting, the requirement of annual independent audits and minimum financial viability. A score of 3 means the listing requirements are most stringent, and a score of 1 means they are the least stringent.
 - d) Accounting Standards⁵: The extent to which publicly traded companies in the country utilize either US GAAP (Generally Accepted Accounting Principles) or IAS (International Accounting Standards) in financial reporting, and whether the country is a member of the International Accounting Standards Council. A score of 1 to 3 is used where 1 means IAS or US GAAP standards are not used and 3 (highest) means either IAS or US GAAP is used for financial reporting.
3. *Productive Labor Practices:* To facilitate economically-productive labor practices, markets shall be evaluated based on their ratification of and adherence to the International Labor Organization's (ILO) principles, which cover labor rights and prohibitions on abusive labor practices, and the degree of effectiveness of implementation through relevant laws, enabling regulations and their degree of enforcement through the judiciary process. This macro-factor shall have the following sub-factors⁶:
- a) ILO Ratification: The extent to which the country has ILO ratification for the eight core conventions. Each country will be graded on:
 - 1) Ratified
 - 2) Pending ratification
 - 3) Not ratified
 - 4) Denounced
 - b) Quality of Enabling Legislation: Countries shall be evaluated on whether laws exist that explicitly protect the right described in the ILO Convention, or portions of it, or whether laws exist that explicitly prohibit the Convention right, or portions of it. The objective is to evaluate fundamentally, how well the right described in the convention is protected

⁵ As mentioned earlier, Accounting Standards was excluded from this year's analysis due to the changing International Accounting Standards. Once the new International Accounting Standards are finalized, we will incorporate this factor back into the analysis, which we expect to do in our 2005 analysis.

⁶ Verite.

by the law. For each law, in addition to identifying if the law exists, any shortcomings in its adequacy or completeness with reference to the relevant ILO convention shall be evaluated, along with information about the regulations that implement the relevant laws.

- c) Institutional Capacity: The governmental administrative bodies with enforcement responsibility for enforcing labor law that exists at the national, regional and local level.
- d) Effectiveness of Implementation: The procedures that exist for enforcement and monitoring of enforcement of laws in the convention areas and evidence that exists that these procedures are working effectively; the existence of a clear grievance process; evidence that workers and/or unions utilize this grievance process; the extent to which penalties provided for in the laws are levied; and the evidence that penalties have deterrence value.

The sub-factor scores total to a maximum of 40 points per country. The sub-factors are more heavily-weighted toward the quality of enabling legislation and the effectiveness of implementation. The *Productive Labor Practices* factor scores have been rescaled on a 1 (lowest) to 3 (highest) basis, where a score of 3 indicates the most effective labor practices.

Market Factors

- 4. *Market Liquidity and Volatility*: This segment measures the ability to buy or sell assets in a country in a timely manner without adversely affecting security prices. Also included in this category is an analysis of each country's stock market return volatility, including currency risk. Sub-factors under consideration for this category are listed below.
 - a) Market Capitalization: Market capitalization represents the overall size of a country's stock market. A score of one (lowest) to three (highest) is assigned, with higher scores reflecting a higher level of market capitalization (i.e., larger market).
 - b) Change in Market Capitalization: This factor represents the growth of a country's stock market over the last five years. A score of one (lowest) to three (highest) is assigned, with higher scores reflecting a higher level of market capitalization growth.
 - c) Average Monthly Trading Value: This factor represents the average dollar value of shares traded, relative to the size of each market (i.e., market capitalization). A score of one (lowest) to three (highest) is assigned, with higher scores reflecting a higher level of trading.

- d) Growth in Listed Companies: This factor represents the number of companies in each country that are publicly traded and are listed on a local stock exchange and their growth over the last five years. A score of one (lowest) to three (highest) is assigned, with higher scores reflecting the growth of listed companies.
 - e) Market Volatility (as measured by standard deviation): This factor represents the level of return volatility (risk) over the last five years in each country's stock market, attributable to both currency volatility and local market volatility. A score of one (lowest) to three (highest) is assigned, with higher scores reflecting a lower level of volatility.
 - f) Return/Risk Ratio: This factor represents the percentage of total return achieved per percentage of risk in each market.⁷ This category was created so as not to penalize those markets that display a high level of positive volatility. A score of one (lowest) to three (highest) is assigned, with higher scores reflecting a higher return/risk ratio.
5. *Market Regulation/Legal System/Investor Protection:* This category analyzes a broad set of factors that together comprise a large portion of the investment climate within a country. This category attempts to identify the degree of legal protection for foreign investors within a country, as well as shareholder and creditors' rights. The following sub-factors are analyzed:
- a) Adequacy of Financial Regulation: A score of one (lowest) to three (highest) is assigned, with higher scores reflecting greater financial regulatory and supervisory stringency.
 - b) Bankruptcy/Creditors' Rights: This segment reflects the adequacy of creditors' rights in each market, in the case of bankruptcy proceedings/reorganization. A score of one (lowest) to three (highest) is assigned, with higher scores reflecting a higher level of creditors' rights.
 - c) Shareholders' Rights: This segment reflects the adequacy of shareholders rights in each market. A score of one (lowest) to three (highest) is assigned, with higher scores reflecting stronger regulations regarding shareholders' rights.
6. *Capital Market Openness:* Openness to foreign investment is a critical barometer of a government's commitment to free market policies. Markets are viable if they have the ability to attract and retain long-term sources of capital. Further, markets are evaluated based on the level of restriction imposed on foreign investors. The following sub-factors are evaluated:

⁷ Risk is defined as the standard deviation of returns.

- a) Trade Policy: This sub-factor measures the degree to which there is oppressive government interference in free trade through deterrents such as trade barriers and punitive tariffs.
 - b) Foreign Investment: This sub-factor examines governmental barriers to the free flow of capital from foreign sources through the imposition of restrictions on foreign ownership of local assets, repatriation restrictions and un-equal treatment of foreigners and locals under the law.
 - c) Banking and Finance: This sub-factor looks at undue government control of banks and financial institutions and measures such factors as government ownership of banks and allocation of credit and the degree of freedom financial institutions have to offer all types of financial services, securities and insurance policies. Protectionist banking regulations against foreigners are also evaluated.
 - d) Stock Market Foreign Ownership Restrictions: This sub-factor examines the extent to which the local stock market restricts share ownership of public companies by foreigners. A score of one (lowest) to three (highest) is assigned, with higher scores reflecting a higher level of market openness.
7. *Settlement Proficiency/Transaction Costs:* Cost effective, efficient settlement of securities transactions is critical as the world moves to one-day settlement. This factor measures the degree of efficiency and the cost effectiveness of transacting in the markets included in this analysis.
- a) Settlement Proficiency: This segment illustrates whether a country's trading and settlement is automated and measures the success of the market in settling transactions in a timely, efficient manner. A score of one (lowest) to three (highest) is assigned, with higher scores reflecting an automated, efficient operational process.
 - b) Transaction Costs: This segment measures the costs associated with trading in a particular market and includes stamp taxes and duties, amount of dividends and income taxed, and capital gains taxes. High trading costs tax the returns and increase the hurdle rate of managers investing in these markets. Markets that impose a high level of taxes, or have a high level of trading costs, receive a low score. A score of one (lowest) to three (highest) is assigned, with higher scores reflecting a lower level of transaction costs. *Please note that transaction costs relating to market impact associated with liquidity is reflected in the first category: Market Liquidity/Volatility.*

Scoring

The analysis has been conducted in a “relative” basis with a goal toward sorting the countries from the most able to support institutional investment to the least. In most cases

the third party source utilized a specific scoring methodology that, too, yielded a relative rank. Where needed, Wilshire rescaled third party scores to a three point system, where a score of 1 represents the least established, least able to support institutional investment and a score of 3 represents the most established, most able to support institutional investment. In this manner, factor scores were then comparable and ultimately combinable for weighting to a total country/market score.

The country factors comprise a 50% total weighting and the market factors comprise the other 50%. Since there are only three country factors proportionally they each receive greater weight in the total analysis than the market factors, of which there are four. Within the country segment the three macro-factors are essentially equal-weighted to each other. The same is true within the market segment. The weighted average sum of the macro-factor scores represents the overall evaluation of the country/market. This weighting scheme was adopted by the Investment Committee at its February 2002 meeting. The macro-factors and weights are listed in Exhibit IV.

Exhibit IV
Macro-Factor Weights

	Category	Assigned Weight
1	Political Stability	17.0%
2	Transparency	16.0
3	Productive Labor Practices	17.0
4	Market Liquidity and Volatility	12.5
5	Market Regulation/ Legal System/ Investor Protection	12.5
6	Capital Market Openness	12.5
7	Settlement Proficiency/Transaction Costs	12.5

Based on the weights shown in Exhibit IV a summary table that ranks the countries on a three-point scale is shown in Exhibit V. The support for the evaluations presented in Exhibit V is provided in the Appendix. The Appendix provides the raw evaluations used by the third party sources for each sub-factor. The countries were each scored based on their relative attractiveness for that sub-factor. The sub-factors were then aggregated into macro-factor scores, which were then weighted to total scores for the countries in the analysis. Exhibit VI ranks the markets separately on their country scores and their market scores.

Exhibit V

Overall Summary: Scenario 1

Factors Weights	Country Factors			Market Factors			Cumulative Mkt Cap as a % of Total Mkt Cap*
	(1)	(2)	(3)	(4)	(5)	(6)	
	17%	16%	17%	12.5%	12.5%	12.5%	100%
Subtotal Weights	50%					50%	100%
Political Stability Score	Productive Labor Practices Score	Liquidity and Volatility Score	Market Regulation/ Investor Protection Score	Capital Market Openness Score	Settlement Proficiency/ Transaction Costs Score	Wilshire Score	
1 Poland	3	3	3	3	3	3	3.00
2 Israel	2	3	3	3	3	2.83	4.23%
3 South Korea	3	3	3	3	2	2.75	18.98%
4 Chile	3	3	3	2	3	2.63	21.90%
5 Czech Republic	3	3	3	2	3	2.63	22.57%
6 South Africa	3	3	3	3	3	2.63	31.61%
7 Taiwan	3	3	2	3	3	2.58	50.65%
8 Hungary	3	3	3	1	2	2.38	51.47%
9 Mexico	2	3	1	3	3	2.37	56.87%
10 Malaysia	2	3	1	3	2	2.12	63.14%
11 Brazil	2	3	2	1	1	3	2.04
12 Jordan	2	2	2	3	1	1	2.00
13 India	2	3	1	3	3	1	1.99
14 Thailand	2	3	1	3	2	2	1.99
15 Turkey	1	3	2	2	1	2	1.99
16 Peru	1	2	2	2	3	2	1.96
17 Argentina	1	2	3	2	1	2	1.88
18 Philippines	1	3	2	2	1	2	1.87
19 Colombia	1	2	2	1	2	2	1.87
20 China	2	1	1	3	2	1	1.67
21 Morocco	2	1	1	1	2	3	1.67
22 Sri Lanka	1	2	2	1	2	1	1.58
23 Venezuela	1	2	2	1	1	3	1.58
24 Indonesia	1	3	1	2	1	1	1.57
25 Russia	1	3	1	2	1	1	1.57
26 Egypt	1	1	1	3	1	3	1.50
27 Pakistan	1	1	1	2	2	1	1.50
						3	100.00%

* FTSE was the source of the market capitalization values used in this column for most of the countries in this analysis. IFC's market capitalization values were used for Jordan, Sri Lanka, and Venezuela, as these countries are not included in the FTSE All World All Emerging Markets Index. All values are as of December 31, 2003.

Exhibit VI
Separate Country Factor and Market Factor Ranks

<u>Country Factor Ranks</u>	<u>Market Factor Ranks</u>
1 Chile	1 Israel
2 Czech Republic	2 Poland
3 Hungary	3 Mexico
4 Poland	4 South Korea
5 South Africa	5 Taiwan
6 South Korea	6 Chile
7 Israel	7 Czech Republic
8 Taiwan	8 Malaysia
9 Brazil	9 Peru
10 Argentina	10 South Africa
11 Jordan	11 China
12 India	12 Colombia
13 Malaysia	13 Egypt
14 Mexico	14 India
15 Philippines	15 Jordan
16 Thailand	16 Morocco
17 Turkey	17 Pakistan
18 Colombia	18 Thailand
19 Peru	19 Turkey
20 Sri Lanka	20 Argentina
21 Venezuela	21 Brazil
22 Indonesia	22 Hungary
23 Russia	23 Philippines
24 China	24 Indonesia
25 Morocco	25 Russia
26 Egypt	26 Sri Lanka
27 Pakistan	27 Venezuela

Exhibit VI shows that the markets rank differently on the total of their country factor scores versus the total of their market factor scores.

Impact from Last Year

To assess the changes from last year, Exhibit VII provides a comparison of this year's scores versus those from 2003. Improved scores are highlighted in blue, whereas scores that fell are highlighted in yellow. This color code is used throughout the balance of the report.

Exhibit VII

Macro-Factor Comparison

Factors Weights	Country Factors				Market Factors				Wilshire Score		
	(1) 17%		(2) 16%		(3) 17%		(4) 12.5%		(5) 12.5%	(6) 12.5%	(7) 50%
	Subtotal Weights		50%		50%		12.5%		12.5%	12.5%	100%
Political Stability	Transparency	Productive Labor Practices	Market Liquidity and Volatility	Regulation/Legal System/Investor Protection	Market Openness	Capital Market	Settlement Proficiency	Transaction Costs	2004	2003	Difference
2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2003	2004
1 Argentina	1	2	3	2	2	3	1	3	2	2	1.88
2 Brazil	2	3	2	1	1	2	3	1	3	3	2.09
3 Chile	3	3	1	3	2	1	1	1	2	2	2.00
4 China	2	1	1	1	1	3	3	1	2	2	2.31
5 Colombia	1	1	2	1	2	1	1	1	2	2	1.50
6 Czech Republic	3	3	3	2	1	2	1	3	2	2	1.67
7 Egypt	1	1	1	1	1	3	1	1	1	3	1.67
8 Hungary	3	3	3	1	2	2	2	3	1	1	2.63
9 India	2	2	3	1	1	3	3	1	1	1	2.50
10 Indonesia	1	1	3	1	1	2	1	2	1	1	1.50
11 Israel	2	2	3	2	3	3	3	3	3	3	1.50
12 Jordan	2	2	2	2	2	3	1	2	3	1	2.38
13 Malaysia	2	2	3	1	1	3	3	1	1	1	2.50
14 Mexico	2	2	3	2	1	2	1	2	1	1	-0.13
15 Morocco	2	2	1	1	1	2	2	2	2	3	1.92
16 Pakistan	1	1	1	1	1	2	2	1	2	1	1.25
17 Peru	1	1	2	3	2	1	1	2	1	1	0.00
18 Philippines	1	1	3	2	2	2	1	2	1	1	0.13
19 Poland	3	3	3	1	3	3	3	3	3	3	0.32
20 Russia	1	1	3	1	1	1	2	2	1	1	0.32
21 South Africa	3	2	3	3	3	3	3	2	3	2	1.25
22 South Korea	3	3	3	3	3	3	3	2	2	2	1.25
23 Sri Lanka	1	2	2	3	2	1	1	2	1	1	1.74
24 Taiwan	3	3	3	2	2	3	3	2	2	2	1.74
25 Thailand	2	2	3	1	1	2	2	1	2	2	1.72
26 Turkey	1	1	3	2	2	3	1	1	2	2	1.72
27 Venezuela	1	1	2	1	2	1	1	1	1	1	1.72

Generally countries' scores improved over the last few years. In the 2002 report, the final scoring ranged from a high of 2.63 out of a possible 3.00 to a low of 1.15. The 2003 scores ranged from a high of 2.75 to a low of 1.25. The overall country scores further improved in this year's analysis with countries ranging from a high of 3.00 to a low of 1.50. Of the 27 countries, 17 countries improved their scores, 7 countries had lower scores, and 3 stayed the same.

Exhibit VIII below shows the change in total scores from 2003 to 2004, ranked by the level of change over the year. Poland made the biggest improvement during the year, improving its score from 2.65 to a perfect 3.00. On the other hand, Argentina fell the most precipitously to a score of 1.88. Of the countries that had a score of 2.00 or greater in 2003, Argentina, Peru, and Turkey fell below the 2.00 threshold in this year's analysis, though not by much. Of the countries that scored below 2.00 in 2003, Malaysia was the single country that improved its scores above the 2.00 threshold.

Exhibit VIII **Total Score Comparison**

	Total Score		
	2004	2003	Difference
1 Poland	3.00	2.56	0.45
2 Philippines	1.87	1.46	0.41
3 Malaysia	2.12	1.80	0.32
4 Indonesia	1.57	1.25	0.32
5 Chile	2.63	2.31	0.32
6 South Africa	2.63	2.33	0.30
7 Israel	2.83	2.55	0.29
8 Venezuela	1.58	1.30	0.29
9 Thailand	1.99	1.72	0.28
10 Russia	1.57	1.38	0.20
11 China	1.67	1.50	0.17
12 Colombia	1.83	1.67	0.16
13 Taiwan	2.58	2.42	0.16
14 Czech Republic	2.63	2.50	0.13
15 Mexico	2.37	2.25	0.12
16 India	1.99	1.92	0.07
17 Brazil	2.04	2.00	0.04
18 Egypt	1.50	1.50	0.00
19 Pakistan	1.50	1.50	0.00
20 South Korea	2.75	2.75	0.00
21 Turkey	1.99	2.08	-0.09
22 Hungary	2.38	2.50	-0.12
23 Jordan	2.00	2.13	-0.13
24 Morocco	1.67	1.80	-0.13
25 Sri Lanka	1.58	1.74	-0.16
26 Peru	1.96	2.12	-0.16
27 Argentina	1.88	2.09	-0.22

The most significant improvement in country development was in *Transparency*. Within this macro-factor, we saw improvement in monetary and fiscal transparency in addition to stock exchange listing requirements, as these factors are becoming more and more critical. There were also significant improvements in *Market Liquidity and Volatility*, which was largely due to the improvement in return/risk ratios of the emerging market countries.

The impact of excluding the Accounting Standards, which is a sub-factor under the *Transparency* macro-factor, is shown in Exhibit IX. The column on the left ranks the countries by their Total Score without Accounting Standards, while the column on the right ranks the countries by the level of impact of excluding the sub-factor from this year's analysis. As you can see, the majority of countries were not affected at all by excluding the Accounting Standards sub-factor, while some of the countries were impacted slightly. Of the countries that were impacted, the majority had better Total Scores when excluding this sub-factor, as most countries' compliance to the International Accounting Standards was relatively weak.

Exhibit IX Impact of Removing the Accounting Standards Sub-factor

	Total Score		
	w/o Accounting	w/ accounting	Difference
1 Poland	3.00	3.00	0.00
2 Israel	2.83	2.83	0.00
3 South Korea	2.75	2.75	0.00
4 Chile	2.63	2.47	0.16
5 Czech Republic	2.63	2.63	0.00
6 South Africa	2.63	2.63	0.00
7 Taiwan	2.58	2.58	0.00
8 Hungary	2.38	2.38	0.00
9 Mexico	2.37	2.37	0.00
10 Malaysia	2.12	1.96	0.16
11 Brazil	2.04	2.04	0.00
12 Jordan	2.00	2.16	-0.16
13 India	1.99	1.99	0.00
14 Thailand	1.99	1.99	0.00
15 Turkey	1.99	1.83	0.16
16 Peru	1.96	2.12	-0.16
17 Argentina	1.88	1.72	0.16
18 Philippines	1.87	1.87	0.00
19 Colombia	1.83	1.67	0.16
20 China	1.67	1.67	0.00
21 Morocco	1.67	1.67	0.00
22 Sri Lanka	1.58	1.74	-0.16
23 Venezuela	1.58	1.42	0.16
24 Indonesia	1.57	1.41	0.16
25 Russia	1.57	1.41	0.16
26 Egypt	1.50	1.50	0.00
27 Pakistan	1.50	1.25	0.25

Impact to Performance and Sector Weights

Since the implementation of the new emerging markets' permissible country policy, the impact to performance and other characteristics can now be assessed. Exhibit X shows the impact to sector weights between the full complement of countries contained in the unconstrained Financial Times Stock Exchange (FTSE) Emerging Markets Equity Index and the custom CalPERS FTSE Emerging Markets Equity Index, which is limited only to the 14 countries permitted for investment by the Investment Committee in 2002, effective April 1, 2002. The remaining 13 countries were not permitted. This action also excluded more than 25% of the available market capitalization⁸.

Exhibit X
Impact to Sector Weights
of
The Custom CalPERS FTSE Emerging Markets Index
and the
Full FTSE Emerging Markets Index
December 31, 2003

	CalPERS- FTSE All Emerging Index	FTSE All Emerging Index	Difference
RESOURCES	12.35%	15.08%	-2.73
BASIC INDUSTRIES	11.07	11.81	-0.74
GENERAL INDUSTRIALS	14.59	12.69	1.90
CYCLICAL CONSUMER GOODS	3.84	3.77	0.07
NON-CYCLICAL CONSUMER GOODS	6.29	6.67	-0.38
CYCLICAL SERVICES	4.96	5.55	-0.59
NON-CYCLICAL SERVICES	11.15	10.26	0.89
UTILITIES	2.01	3.60	-1.59
FINANCIALS	20.21	19.34	0.87
INFORMATION TECHNOLOGY	13.53	11.23	2.30
Totals	100.00	100.00	

The impact to sector weights is telling. CalPERS' portfolio, as it is currently structured, has had and will have greater sensitivity to stock market swings. There was a definite reduction in exposure to the non-discretionary areas of the economy like resources and utilities, with an increased exposure to technology and other economically-sensitive sectors.

⁸ Source: Wilshire Associates, FTSE, Morgan Stanley Capital International, IFC.

Exhibit XI Impact to Performance Results

Custom vs. Standard FTSE Emerging Markets Index

	<u>April 1, 2002 - Dec 31, 2002</u>	<u>Jan 1, 2003 - Dec 31, 2003</u>	<u>Inception*</u>
CalPERS FTSE All Emerging Index	-19.8%	47.3%	10.0%
Standard FTSE All Emerging Index	<u>-16.4%</u>	<u>54.0%</u>	<u>15.5%</u>
Difference	-3.4%	-6.7%	-5.5%
Index of Countries Excluded from Permissible Country List, but that Scored above 1.50	-3.3%	62.7%	29.6%

* Cumulative annualized return from April 1, 2002 - December 31, 2003.

Impact on External Managers

	CalPERS Annualized Gross Return*	Unconstrained Portfolio Annualized Return*	Difference
AllianceBernstein	40.4%	53.1%	-12.7%
Dimensional Fund Advisors	37.8%	37.0%	0.8%
Genesis Asset Managers	25.3%	44.4%	<u>-19.1%</u>
Asset Weighted Return Difference			-7.3%

* From July 31, 2002 - December 31, 2003.

Exhibit XI shows the impact to performance for the period the new permissible country policy has been in effect. From April 1, 2002-December 31, 2002, the restricted Custom CalPERS FTSE Emerging Markets Index, which includes only those 14 countries that the Board deemed permissible in 2002, trailed the broader standard FTSE Emerging Markets Index by 3.4%. During 2003, the Custom CalPERS FTSE Emerging Markets Index trailed the standard Index by 6.7%. Over the entire period during which this permissible country policy has been in effect (April 1, 2002-December 31, 2003), the Custom CalPERS FTSE Emerging Markets Index underperformed the standard FTSE Index by 5.5% on an annualized basis.

In addition to this comparison, we also looked at the performance of those countries that were excluded from the permissible country list but scored above 1.50. These included India, Jordan, and Thailand in 2002 and Columbia, India, Malaysia, Morocco, Thailand, and Sri Lanka in 2003. This Index of countries outperformed both the Custom CalPERS and standard FTSE Emerging Market Indices during the periods shown above.

Lastly, this policy had an overall negative impact on performance of 7.3% since inception when comparing CalPERS' external emerging markets managers to each one's fully discretionary investment results.

Conclusion

The CalPERS Board has included countries that score 2.0 or above. This year, that demarcation would include the countries shown in Exhibit XII as follows.

Exhibit XII Markets Meeting the 2.0 Score Threshold

Brazil
Chile
Czech Republic
Hungary
Israel
Jordan
Malaysia
Mexico
Poland
South Africa
South Korea
Taiwan

The impact of drawing the line at 2.0 results in Argentina, Turkey and Peru, which were on the permissible list last year, to fall below the Board's cut-off. If the Board continues its one-year "cure" policy, where a country can remain on the list another year despite a fall in score below 2.0, then these countries can remain on and would be joined by Malaysia, which moved up above a score of 2.0. This would bring the number of permissible countries to 15. The Philippines, which had been on the list, was extended the one-year cure period last year because its score had dropped below 2.0. In the 2004 report, The Philippines' score rose significantly above Wilshire's past threshold of 1.5, but not enough to meet the 2.0 threshold.

There are two countries that reached 1.99 as a result of steady increases in scores over the last three years, India and Thailand. Wilshire has been in touch with both countries and their improvement in score and rise in world stature attest to their increased strength as investment markets. Perhaps to improve diversification, increase the opportunity set and take advantage of the momentum both these countries have shown, the Board may wish consider these countries as special cases.

In the past, Wilshire has recommended drawing the line at 1.5. This year the line being drawn at 1.5 would include all, but two countries, underscoring the improvement in countries' development. We looked at the impact of the performance results of the countries that had scored between 1.5 and 2.0 since the inception of the new analysis. It is important to note that a market capitalization weighted return of these countries' markets outperformed both the unrestricted FTSE Emerging Markets Index and the CalPERS' Custom Emerging Market Index. Since 2001, the opportunity cost has been nearly 20%.

Alternative Scenarios

Alternative weighting schemes of the broad seven macro-factors have also been provided in Exhibits XIII(A) and XIII(B). These alternatives weight the country factors versus the market factors more or less heavily and then re-rank the countries/markets. The details for these scenarios are provided in the Appendix.

Exhibit XIII (A) **Scenario Descriptions**

Scenario 1: 50% weight to the Country Factors and a 50% weight to the Market Factors with an underlying **equal**-weight of all macro-factors.

Scenario 2: 60% weight to Country Factors and a 40% weight to market factors with the underlying macro-factors equal-weighted.

Scenario 3: 75% weight to Country Factors and a 25% to Market Factors with an underlying equal-weight of all macro-factors.

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Scenario 4: 25% weight to Country Factors and a 75% weight to Market Factors with an underlying equal-weight of all macro-factors.

Scenario 5: Equal weight of all seven macro-factors.

Exhibit XIII (B)
Scenario Results

<u>Scenario 1</u>	<u>Scenario 2</u>	<u>Scenario 3</u>	<u>Scenario 4</u>	<u>Scenario 5</u>
1 Poland				
2 Israel	2 South Korea	2 South Korea	2 Israel	2 Israel
3 South Korea	3 Israel	3 Chile	3 South Korea	3 South Korea
4 Chile	4 Chile	4 Czech Republic	4 Mexico	4 Chile
5 Czech Republic	5 Czech Republic	5 South Africa	5 Taiwan	5 Czech Republic
6 South Africa	6 South Africa	6 Israel	6 Chile	6 South Africa
7 Taiwan	7 Taiwan	7 Hungary	7 Czech Republic	7 Taiwan
8 Hungary	8 Hungary	8 Taiwan	8 South Africa	8 Mexico
9 Mexico	9 Mexico	9 Brazil	9 Malaysia	9 Hungary
10 Malaysia	10 Brazil	10 Mexico	10 Peru	10 Malaysia
11 Brazil	11 Malaysia	11 Malaysia	11 Hungary	11 India
12 Jordan	12 Jordan	12 India	12 India	12 Peru
13 India	13 India	13 Jordan	13 Jordan	13 Thailand
14 Thailand	14 Thailand	14 Thailand	14 Thailand	14 Brazil
15 Turkey	15 Turkey	15 Turkey	15 Turkey	15 Jordan
16 Peru	16 Argentina	16 Argentina	16 Colombia	16 Turkey
17 Argentina	17 Philippines	17 Philippines	17 Brazil	17 Argentina
18 Philippines	18 Peru	18 Peru	18 China	18 Colombia
19 Colombia	19 Colombia	19 Colombia	19 Morocco	19 Philippines
20 China	20 Venezuela	20 Indonesia	20 Argentina	20 Morocco
21 Morocco	21 China	21 Russia	21 Philippines	21 China
22 Sri Lanka	22 Indonesia	22 Sri Lanka	22 Egypt	22 Indonesia
23 Venezuela	23 Morocco	23 Venezuela	23 Pakistan	23 Pakistan
24 Indonesia	24 Russia	24 China	24 Indonesia	24 Russia
25 Russia	25 Sri Lanka	25 Morocco	25 Russia	25 Sri Lanka
26 Egypt	26 Egypt	26 Egypt	26 Sri Lanka	26 Venezuela
27 Pakistan	27 Pakistan	27 Pakistan	27 Venezuela	27 Egypt

APPENDIX

Appendix: Alternative Scenarios Overall Summary Tables

1. **Scenario 1:** 50% weight to the Country Factors and a 50% weight to the Market Factors with an underlying **equal-weight** of all macro-factors.
2. **Scenario 2:** 60% weight to Country Factors and a 40% weight to market factors with the underlying macro-factors **equal-weighted**.
3. **Scenario 3:** 75% weight to Country Factors and a 25% to Market Factors with an underlying **equal-weight** of all macro-factors.
4. **Scenario 4:** 25% weight to Country Factors and a 75% weight to Market Factors with an underlying **equal-weight** of all macro-factors.
5. **Scenario 5:** Equal weight of all seven macro-factors.

Overall Summary: Scenario 1

Factors Weights Subtotal Weights	Country Factors						Market Factors				Cumulative Mkt Cap as a % of Total Mkt Cap*
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)		
	17%	16%	17%	12.5%	12.5%	12.5%	12.5%	50.0%	100%		
1 Poland	3	3	3	3	3	3	3	3	3	3.00	
2 Israel	2	3	3	3	3	3	3	3	2.83	4.23%	
3 South Korea	3	3	3	3	3	2	2	2	2.75	18.98%	
4 Chile	3	3	3	2	2	3	2	2	2.63	21.90%	
5 Czech Republic	3	3	3	2	2	3	2	2	2.63	22.57%	
6 South Africa	3	3	3	3	2	3	1	1	2.63	31.61%	
7 Taiwan	3	3	2	3	3	2	2	2	2.58	50.65%	
8 Hungary	3	3	3	1	2	3	1	1	2.38	51.47%	
9 Mexico	2	3	1	3	2	3	3	3	2.37	56.87%	
10 Malaysia	2	3	1	3	2	1	3	3	2.12	63.14%	
11 Brazil	2	3	2	1	2	1	3	3	2.04	71.19%	
12 Jordan	2	2	2	3	1	3	1	1	2.00	71.62%	
13 India	2	3	1	3	3	1	1	1	1.99	79.34%	
14 Thailand	2	3	1	3	2	1	1	2	1.99	83.28%	
15 Turkey	1	3	2	2	1	2	2	3	1.99	85.87%	
16 Peru	1	2	2	2	2	1	2	2	1.96	86.20%	
17 Argentina	1	2	3	2	2	1	2	2	1.88	86.55%	
18 Philippines	1	3	2	2	1	2	2	2	1.87	87.26%	
19 Colombia	1	2	2	1	2	3	2	2	1.83	87.33%	
20 China	2	1	1	3	2	1	2	2	1.67	90.75%	
21 Morocco	2	1	1	1	2	2	2	3	1.67	90.92%	
22 Sri Lanka	1	2	2	1	2	2	2	1	1.58	91.02%	
23 Venezuela	1	2	2	1	1	1	1	3	1.58	91.16%	
24 Indonesia	1	3	1	2	2	1	1	1	1.57	92.92%	
25 Russia	1	3	1	2	2	1	1	1	1.57	99.31%	
26 Egypt	1	1	1	3	1	1	3	1	1.50	99.64%	
27 Pakistan	1	1	1	2	2	1	3	1	1.50	100.00%	

* FTSE was the source of the market capitalization values used in this column for most of the countries in this analysis. IFC's market capitalization values were used for Jordan, Sri Lanka, and Venezuela, as these countries are not included in the FTSE All World All Emerging Markets Index. All values are as of December 31, 2003.

Overall Summary: Scenario 2

Factors Weights	Country Factors			Market Factors					Cumulative Mkt Cap as a % of Total Mkt Cap
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	
	20%	20%	60%	10%	10%	10%	10%	100%	
Subtotal Weights	Productive Labor Practices Score	Political Stability Score	Transparency Score	Market Liquidity and Volatility Score	Market Regulation/ Investor Protection Score	Capital Market Openness Score	Settlement Proficiency/ Transaction Costs Score	Wilshire Score	
1 Poland	3	3	3	3	3	3	3	3	3.00
2 South Korea	3	3	3	3	3	2	2	2.80	16.09%
3 Israel	2	3	3	3	3	3	3	2.80	18.98%
4 Chile	3	3	3	2	2	3	2	2.70	21.90%
5 Czech Republic	3	3	3	2	2	3	2	2.70	22.57%
6 South Africa	3	3	3	3	2	3	1	2.70	31.61%
7 Taiwan	3	3	2	3	3	2	2	2.60	50.65%
8 Hungary	3	3	3	1	2	3	1	2.50	51.47%
9 Mexico	2	3	3	1	3	2	3	2.30	56.87%
10 Brazil	2	3	2	1	2	1	3	2.10	64.92%
11 Malaysia	2	3	1	3	2	1	3	2.10	71.19%
12 Jordan	2	2	2	3	1	3	1	2.00	71.62%
13 India	2	3	1	3	3	1	1	2.00	79.34%
14 Thailand	2	3	1	3	2	1	1	2.00	83.28%
15 Turkey	1	3	2	2	1	2	1	2.00	85.87%
16 Argentina	1	2	3	2	2	1	2	1.90	86.22%
17 Philippines	1	3	2	2	1	2	2	1.90	86.93%
18 Peru	1	2	2	2	2	1	2	1.90	87.26%
19 Colombia	1	2	2	1	2	3	2	1.80	87.33%
20 Venezuela	1	2	1	1	1	1	1	1.60	87.47%
21 China	2	1	1	3	2	1	2	1.60	90.89%
22 Indonesia	1	3	1	1	2	1	1	1.60	92.64%
23 Morocco	2	1	1	1	2	2	3	1.60	92.82%
24 Russia	1	3	1	2	2	1	1	1.60	99.21%
25 Sri Lanka	1	2	1	1	2	2	1	1.60	99.31%
26 Egypt	1	1	1	3	1	1	3	1.40	99.64%
27 Pakistan	1	1	2	1	2	2	1	1.40	100.00%

* FTSE was the source of the market capitalization values used in this column for most of the countries in this analysis. IFC's market capitalization values were used for Jordan, Sri Lanka, and Venezuela, as these countries are not included in the FTSE All World All Emerging Markets Index. All values are as of December 31, 2003.

Overall Summary: Scenario 3

Factors Weights	Country Factors			Market Factors					Cumulative Mkt Cap as a % of Total Mkt Cap
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	
	25%	25%	25%	6.25%	6.25%	6.25%	6.25%	100%	
Subtotal Weights	75%	75%	75%	25%	25%	25%	25%	100%	
Political Stability Score	Productive Labor Practices Score	Transparency Score	Market Liquidity and Volatility Score	Market Regulation/ Investor Protection Score	Capital Market Openness Score	Settlement Proficiency/ Transaction Costs Score	Wilshire Score		
1 Poland	3	3	3	3	3	3	3	3.00	1.35%
2 South Korea	3	3	3	3	3	2	2	2.88	16.09%
3 Chile	3	3	3	2	2	3	2	2.81	19.02%
4 Czech Republic	3	3	3	2	2	3	2	2.81	19.68%
5 South Africa	3	3	3	3	2	3	1	2.81	28.72%
6 Israel	2	3	3	3	3	3	3	2.75	31.61%
7 Hungary	3	3	3	1	2	3	1	2.69	32.43%
8 Taiwan	3	3	2	3	3	2	2	2.63	51.47%
9 Brazil	2	3	2	1	2	1	3	2.19	59.52%
10 Mexico	2	3	1	3	2	3	3	2.19	64.92%
11 Malaysia	2	3	1	3	2	1	3	2.06	71.19%
12 India	2	3	1	3	3	1	1	2.00	78.91%
13 Jordan	2	2	2	3	1	3	1	2.00	79.34%
14 Thailand	2	3	1	3	2	1	1	2.00	83.28%
15 Turkey	1	3	2	2	1	2	3	2.00	85.87%
16 Argentina	1	2	3	2	2	1	2	1.94	86.22%
17 Philippines	1	3	2	2	1	2	2	1.94	86.93%
18 Peru	1	2	2	2	2	3	2	1.81	87.26%
19 Colombia	1	2	2	1	2	3	2	1.75	87.33%
20 Indonesia	1	3	1	2	2	1	1	1.63	89.09%
21 Russia	1	3	1	2	2	1	1	1.63	95.48%
22 Sri Lanka	1	2	2	1	2	2	1	1.63	95.58%
23 Venezuela	1	2	2	1	1	3	1	1.63	95.72%
24 China	2	1	1	3	2	1	2	1.50	99.14%
25 Morocco	2	1	1	1	2	2	3	1.50	99.31%
26 Egypt	1	1	1	3	1	1	3	1.25	99.64%
27 Pakistan	1	1	2	1	2	2	1	1.25	100.00%

* FTSE was the source of the market capitalization values used in this column for most of the countries in this analysis. IFC's market capitalization values were used for Jordan, Sri Lanka, and Venezuela, as these countries are not included in the FTSE All World All Emerging Markets Index. All values are as of December 31, 2003.

Overall Summary: Scenario 4

	Country Factors						Market Factors				Cumulative Mkt Cap as a % of Total Mkt Cap					
	Factors Weights		(1) 8.33%		(2) 8.33%		(3) 8.33%		(4) 18.75%		(5) 18.75%		(6) 18.75%			100%
	Subtotal Weights		25%		25%		25%		25%		25%		25%		100%	
	Political Stability Score	Transparency Score	Productive Labor Practices Score	Liquidity and Volatility Score	Market Regulation/ Legal System/ Investor Protection Score	Capital Market Openness Score	Settlement Proficiency/ Transaction Costs Score									
1 Poland	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3.00	1.35%
2 Israel	2	3	3	3	3	3	3	3	3	3	3	3	3	3	2.92	4.23%
3 South Korea	3	3	3	3	3	3	3	2	2	2	2	2	2	2	2.63	18.98%
4 Mexico	2	3	3	1	3	2	2	3	3	3	3	3	3	3	2.56	24.38%
5 Taiwan	3	3	3	2	3	3	3	2	3	2	3	2	2	2	2.54	43.42%
6 Chile	3	3	3	3	3	2	2	2	3	3	3	2	2	2	2.44	46.34%
7 Czech Republic	3	3	3	3	2	2	2	3	3	3	3	2	2	2	2.44	47.01%
8 South Africa	3	3	3	3	3	3	2	3	3	3	3	3	1	1	2.44	56.05%
9 Malaysia	2	3	3	1	3	3	2	1	1	1	1	3	3	3	2.19	62.32%
10 Peru	1	2	2	2	2	2	2	3	3	3	3	2	2	2	2.10	62.65%
11 Hungary	3	3	3	1	1	2	2	3	3	3	3	3	3	3	2.06	63.46%
12 India	2	3	3	1	3	3	3	3	3	3	3	1	1	1	2.00	71.19%
13 Jordan	2	2	2	2	3	3	1	1	3	3	3	1	1	1	2.00	71.62%
14 Thailand	2	3	1	3	2	1	2	1	1	1	1	2	2	2	2.00	75.56%
15 Turkey	1	3	2	2	1	1	2	1	1	2	1	2	3	3	2.00	78.15%
16 Colombia	1	2	2	2	1	1	2	1	2	3	1	3	2	2	1.92	78.23%
17 Brazil	2	3	2	1	1	1	2	1	2	1	1	3	3	3	1.90	86.28%
18 China	2	1	1	1	3	1	2	1	1	1	1	2	2	2	1.83	89.69%
19 Morocco	2	1	1	1	1	1	2	1	2	2	1	2	3	3	1.83	89.87%
20 Argentina	1	2	3	2	2	2	2	1	1	1	1	2	2	2	1.81	90.21%
21 Philippines	1	3	2	2	1	1	3	1	1	1	1	1	3	3	1.81	90.92%
22 Egypt	1	1	1	1	3	1	1	1	1	1	1	1	3	3	1.75	91.25%
23 Pakistan	1	1	1	1	1	2	1	2	1	1	1	3	3	3	1.75	91.61%
24 Indonesia	1	3	1	1	2	1	2	2	2	1	1	1	1	1	1.54	93.37%
25 Russia	1	3	1	1	2	1	2	2	1	1	1	1	1	1	1.54	99.76%
26 Sri Lanka	1	2	1	2	1	1	2	1	2	1	1	1	1	1	1.54	99.86%
27 Venezuela	1	1	2	2	1	1	1	1	1	1	1	3	3	3	1.54	100.00%

* FTSE was the source of the market capitalization values used in this column for most of the countries in this analysis. IFC's market capitalization values were used for Jordan, Sri Lanka, and Venezuela, as these countries are not included in the FTSE All World All Emerging Markets Index. All values are as of December 31, 2003.

Overall Summary: Scenario 5

Factors Weights	Country Factors			Market Factors						Cumulative Mkt Cap as a % of Total Mkt Cap
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)		
	14.29%	14.29%	14.29%	14.29%	14.29%	14.29%	57%	100%		
Subtotal Weights	4.3%									
Political Stability Score	Productive Labor Practices Score	Market Liquidity and Volatility Score	Market Regulation/ Legal System/ Investor Protection Score	Capital Market Openness Score	Settlement Proficiency/ Transaction Costs Score					
Score	Score	Score	Score	Score	Score	Score	Score	Score	Score	Score
1 Poland	3	3	3	3	3	3	3	3	3.00	1.35%
2 Israel	2	3	3	3	3	3	3	2.86	4.23%	
3 South Korea	3	3	3	3	3	2	2	2.71	18.98%	
4 Chile	3	3	3	2	2	3	2	2.57	21.90%	
5 Czech Republic	3	3	3	2	2	3	2	2.57	22.57%	
6 South Africa	3	3	3	3	2	3	1	2.57	31.61%	
7 Taiwan	3	3	2	3	3	2	2	2.57	50.65%	
8 Mexico	2	3	1	3	2	3	3	2.43	56.05%	
9 Hungary	3	3	1	1	2	3	1	2.29	56.87%	
10 Malaysia	2	3	1	3	2	1	3	2.14	63.14%	
11 India	2	3	1	3	3	1	1	2.00	70.86%	
12 Peru	1	2	2	2	2	3	2	2.00	71.19%	
13 Thailand	2	3	1	3	2	1	2	2.00	75.13%	
14 Brazil	2	3	2	1	2	1	3	2.00	83.18%	
15 Jordan	2	2	2	3	1	3	1	2.00	83.61%	
16 Turkey	1	3	2	2	1	2	3	2.00	86.20%	
17 Argentina	1	2	3	2	2	1	2	1.86	86.55%	
18 Colombia	1	2	2	1	2	3	2	1.86	86.62%	
19 Philippines	1	3	2	2	1	2	2	1.86	87.33%	
20 Morocco	2	1	1	1	2	2	3	1.71	87.50%	
21 China	2	1	1	3	2	1	2	1.71	90.92%	
22 Indonesia	1	3	1	2	2	1	1	1.57	92.68%	
23 Pakistan	1	1	1	2	2	1	3	1.57	93.03%	
24 Russia	1	3	1	2	2	1	1	1.57	99.43%	
25 Sri Lanka	1	2	2	1	2	2	1	1.57	99.53%	
26 Venezuela	1	2	2	1	1	1	3	1.57	99.67%	
27 Egypt	1	1	3	1	1	1	3	1.57	100.00%	

* FTSE was the source of the market capitalization values used in this column for most of the countries in this analysis. IFC's market capitalization values were used for Jordan, Sri Lanka, and Venezuela, as these countries are not included in the FTSE All World All Emerging Markets Index. All values are as of December 31, 2003.

Country and Market Factor Evaluations
By Country

COUNTRY FACTORS
Factor 1: Political Stability

	(1a)	(1b)	(1c)	2003
	Civil Liberties Score	Independent Judiciary and Legal Protection Score	Political Risk Score	Wilshire Score**
	2	1	1	1
1 Argentina	1	1	1	1
2 Brazil	2	2	2	2
3 Chile	3	3	3	3
4 China	1	2	2	1
5 Colombia	1	1	3	1
6 Czech Republic	3	2	1	1
7 Egypt	1	2	4	1
8 Hungary	3	3	9	3
9 India	2	3	6	2
10 Indonesia	1	2	1	1
11 Israel	2	3	1	1
12 Jordan	1	3	6	2
13 Malaysia	1	3	2	2
14 Mexico	3	2	2	2
15 Morocco	1	2	7	2
16 Pakistan	1	2	6	2
17 Peru	2	1	6	2
18 Philippines	2	1	4	1
19 Poland	3	2	8	3
20 Russia	1	1	3	1
21 South Africa	3	3	8	3
22 South Korea	3	3	9	3
23 Sri Lanka	1	2	4	2
24 Taiwan	3	3	9	3
25 Thailand	2	3	7	2
26 Turkey	1	2	4	1
27 Venezuela	1	1	1	1

* Total Score = sum of 3 sub-factor scores.

** Wilshire Score based on Total Score.

Factor 1A: Civil Liberties
Source: Freedom House

	Civil Liberties <u>Score*</u>	Wilshire <u>Score**</u>	Wilshire <u>Score*</u>	Wilshire <u>Score**</u>
1 Argentina	3	2	2	2
2 Brazil	3	2	2	2
3 Chile	1	3	3	3
4 China	6	1	1	1
5 Colombia	4	1	1	1
6 Czech Republic	2	3	3	3
7 Egypt	6	1	1	1
8 Hungary	2	3	3	3
9 India	3	2	2	2
10 Indonesia	4	1	1	1
11 Israel	3	2	2	2
12 Jordan	5	1	1	1
13 Malaysia	5	1	1	1
14 Mexico	2	3	2	2
15 Morocco	5	1	1	1
16 Pakistan	5	1	1	1
17 Peru	3	2	2	2
18 Philippines	3	2	2	2
19 Poland	2	3	3	3
20 Russia	5	1	1	1
21 South Africa	2	3	3	3
22 South Korea	2	3	3	3
23 Sri Lanka	4	1	1	1
24 Taiwan	2	3	3	3
25 Thailand	3	2	2	2
26 Turkey	4	1	1	1
27 Venezuela	4	1	1	1

* 1 = free (good civil liberties); 7 = not free (poor civil liberties).

** Wilshire Score based on Civil Liberties Score.

Factor 1B: Independent Judiciary and Legal Protection
 Source: Global Competitiveness Report 2003-2004

		Judicial Independence*	Property Rights*	Favoritism in Decisions of Govt. Officials*	Organized Crime*	Contracts and Law Subindex**	Wilshire Score***	Wilshire Score
1	Argentina	1.8	2.1	1.9	3.4	2.28	1	1
2	Brazil	3.9	4.9	3.5	3.4	3.92	2	2
3	Chile	4.6	5.7	3.6	5.7	4.93	3	3
4	China	3.4	4.1	3.5	4.3	3.81	2	2
5	Colombia	3.1	4.7	2.7	2.1	3.16	1	1
6	Czech Republic	4.2	3.9	2.9	4.2	3.81	2	2
7	Egypt	3.7	4.4	3.8	5.1	4.23	2	1
8	Hungary	4.9	5.2	2.9	5.1	4.52	3	3
9	India	5.2	5.1	3.2	5.1	4.65	3	3
10	Indonesia	3.2	3.8	3.6	3.9	3.63	2	1
11	Israel	6.5	5.5	3.3	6.4	5.39	3	3
12	Jordan	5.2	6.0	4.0	6.6	5.44	3	3
13	Malaysia	4.5	5.8	3.4	6.1	4.95	3	3
14	Mexico	3.3	4.8	3.4	3.3	3.70	2	1
15	Morocco	3.1	4.5	3.2	5.1	3.96	2	2
16	Pakistan	2.8	3.9	3.3	3.8	3.46	2	1
17	Peru	1.9	4.1	2.8	3.9	3.19	1	1
18	Philippines	2.9	4.0	2.3	3.6	3.20	1	1
19	Poland	3.9	3.9	2.9	3.7	3.59	2	2
20	Russia	2.5	2.7	2.5	3.3	2.74	1	1
21	South Africa	5.6	5.4	3.4	3.5	4.51	3	3
22	South Korea	4.1	5.2	4.2	5.4	4.72	3	3
23	Sri Lanka	3.2	3.7	3.0	4.3	3.57	2	3
24	Taiwan	4.7	5.5	4.4	5.4	5.03	3	3
25	Thailand	4.8	5.5	3.7	5.5	4.88	3	3
26	Turkey	3.7	4.1	3.2	5.2	4.03	2	2
27	Venezuela	1.2	3.0	1.8	3.1	2.27	1	1

* 1 = Lower level of judicial independence/legal protection; 7 = Higher level of judicial independence/legal protection.

** Contracts and Law Subindex is an equal-weighted average of its four sub-components.

*** Wilshire Score based on Contracts and Law Subindex.

Factor 1C: Political Risk

Source: International Country Risk Guide

	Current Rating*	Wilshire Score**	2003 Wilshire Score
1 Argentina	64.5	1	1
2 Brazil	70.5	2	1
3 Chile	77.5	3	3
4 China	70.0	2	1
5 Colombia	53.5	1	1
6 Czech Republic	78.0	3	3
7 Egypt	64.5	1	1
8 Hungary	83.5	3	3
9 India	59.5	1	1
10 Indonesia	51.5	1	1
11 Israel	67.5	1	1
12 Jordan	69.5	2	1
13 Malaysia	71.5	2	2
14 Mexico	69.0	2	2
15 Morocco	73.5	2	2
16 Pakistan	50.0	1	1
17 Peru	62.5	1	1
18 Philippines	65.5	1	1
19 Poland	75.0	3	3
20 Russia	67.5	1	1
21 South Africa	69.0	2	1
22 South Korea	78.0	3	3
23 Sri Lanka	55.5	1	1
24 Taiwan	76.0	3	3
25 Thailand	71.0	2	2
26 Turkey	64.5	1	1
27 Venezuela	49.5	1	1

* 0 = Politically unstable; 100 = Politically stable.

** Wilshire Score based on Current Rating.

Factor 2: Transparency

	(2a) Freedom of the Press Score	(2b) Monetary and Fiscal Transparency Score	(2c) Stock Exchange Listing Requirements Score	Total Score*	Wilshire Score**	Wilshire Score***	2003 Wilshire Score
1 Argentina	2	2	2	6	2	1	1
2 Brazil	3	3	3	9	3	2	2
3 Chile	3	3	1	7	3	1	1
4 China	1	1	2	4	1	1	1
5 Colombia	2	2	1	5	2	1	3
6 Czech Republic	3	3	3	9	3	3	3
7 Egypt	1	1	2	4	1	1	1
8 Hungary	3	3	2	8	3	1	3
9 India	3	2	3	8	3	1	1
10 Indonesia	2	2	3	7	3	1	1
11 Israel	3	2	2	7	3	2	2
12 Jordan	2	1	2	5	2	2	2
13 Malaysia	2	2	3	7	3	2	3
14 Mexico	3	3	1	7	3	2	2
15 Morocco	2	1	1	4	1	1	1
16 Pakistan	1	1	2	6	2	3	2
17 Peru	3	2	1	6	2	3	2
18 Philippines	3	2	3	8	3	2	3
19 Poland	3	3	2	8	3	1	3
20 Russia	2	2	3	7	3	3	3
21 South Africa	3	3	3	9	3	3	3
22 South Korea	3	3	3	9	3	3	3
23 Sri Lanka	2	2	2	6	2	3	2
24 Taiwan	3	2	3	8	3	3	3
25 Thailand	3	2	3	8	3	3	3
26 Turkey	2	2	2	7	3	2	2
27 Venezuela	2	1	1	5	2	1	1

* Total Score = sum of 3 sub-factor scores.

** Wilshire Score based on Total Score.

Factor 2A: Freedom of the Press
 Source: Freedom House

		Press Freedom*	Wilshire Score**	Wilshire Score**
		PF	2	2
1	Argentina	F	3	2
2	Brazil	F	3	2
3	Chile	F	3	3
4	China	NF	1	1
5	Colombia	PF	2	2
6	Czech Republic	F	3	3
7	Egypt	NF	1	1
8	Hungary	F	3	3
9	India	F	3	3
10	Indonesia	PF	2	2
11	Israel	F	3	3
12	Jordan	PF	2	2
13	Malaysia	PF	2	2
14	Mexico	F	3	3
15	Morocco	PF	2	2
16	Pakistan	NF	1	1
17	Peru	F	3	3
18	Philippines	F	3	3
19	Poland	F	3	3
20	Russia	PF	2	2
21	South Africa	F	3	3
22	South Korea	F	3	3
23	Sri Lanka	PF	2	2
24	Taiwan	F	3	3
25	Thailand	F	3	3
26	Turkey	PF	2	2
27	Venezuela	PF	2	2

* F = Free; PF = Partially Free; NF = Not Free.

** Wilshire Score based on Press Freedom.

Factor 2B: Monetary and Fiscal Transparency

Source: Oxford Analytica

		Monetary Transparency Score*	Fiscal Transparency Score*	Total Score**	Wilshire Score***	2003 Wilshire Score
1	Argentina	3.50	3.25	6.75	2	2
2	Brazil	3.75	4.00	7.75	3	3
3	Chile	4.25	4.00	8.25	3	2
4	China	2.25	1.50	3.75	1	1
5	Colombia	4.00	3.00	7.00	2	2
6	Czech Republic	4.75	4.00	8.75	3	3
7	Egypt	2.50	2.00	4.50	1	1
8	Hungary	4.50	4.00	8.50	3	3
9	India	3.50	3.25	6.75	2	2
10	Indonesia	3.25	2.50	5.75	2	1
11	Israel	3.75	3.25	7.00	2	2
12	Jordan	2.75	2.00	4.75	1	1
13	Malaysia	3.25	3.25	6.50	2	2
14	Mexico	4.25	3.75	8.00	3	2
15	Morocco	2.00	3.00	5.00	1	1
16	Pakistan	2.50	2.50	5.00	1	1
17	Peru	4.00	3.25	7.25	2	2
18	Philippines	3.75	3.50	7.25	2	2
19	Poland	4.25	4.00	8.25	3	2
20	Russia	3.25	2.75	6.00	2	1
21	South Africa	4.25	3.50	7.75	3	2
22	South Korea	4.00	3.75	7.75	3	2
23	Sri Lanka	3.25	3.00	6.25	2	2
24	Taiwan	3.75	3.00	6.75	2	2
25	Thailand	3.50	2.75	6.25	2	1
26	Turkey	4.00	3.00	7.00	2	2
27	Venezuela	2.50	2.25	4.75	1	1

* 1 = least transparent; 5 = most transparent.

** Total Score = sum of 2 sub-components.

*** Wilshire Score based on Total Score.

Factor 2C: Stock Exchange Listing Requirements

Source: Individual Stock Market Websites*

	Annual**	Audited**	Semi- Annual**	Annual**	Quarterly**	Periodic**	Material Events**	Assets/ Equity**	Cash Flow/ Revenue/ Profitability**	Shareholder Distribution**	Total Score***	Wilshire Score****
1 Argentina	1	0	1	1	0	1	1	1	1	1	2	2
2 Brazil	1	1	1	1	1	0	1	1	1	1	2	2
3 Chile	1	1	1	1	1	0	0	0	0	1	1	1
4 China	1	1	1	0	0	1	1	1	1	1	2	1
5 Colombia	1	0	0	0	0	0	0	0	0	0	2	1
6 Czech Republic	1	1	1	1	1	1	1	1	0	1	8	3
7 Egypt	1	1	1	1	0	1	1	1	0	1	7	2
8 Hungary	1	1	1	1	0	1	1	1	0	1	7	2
9 India	1	1	1	1	0	1	1	1	1	1	8	3
10 Indonesia	1	1	1	1	0	1	1	1	1	1	8	3
11 Israel	1	1	1	1	0	1	1	1	0	1	7	2
12 Jordan	1	1	1	0	1	1	1	1	1	0	7	2
13 Malaysia	1	1	1	1	1	1	1	1	1	1	8	3
14 Mexico	1	1	1	1	0	1	0	1	0	0	5	1
15 Morocco	1	1	1	0	0	0	0	0	0	0	1	1
16 Pakistan	1	1	1	1	0	1	1	1	0	1	7	2
17 Peru	1	0	1	1	0	1	0	0	0	0	4	1
18 Philippines	1	1	1	1	0	1	1	1	1	1	8	3
19 Poland	1	1	1	1	0	1	1	1	0	1	7	2
20 Russia	1	1	1	1	1	0	1	1	1	1	8	3
21 South Africa	1	1	1	1	0	1	1	1	1	1	8	3
22 South Korea	1	1	1	1	1	0	1	1	1	1	8	3
23 Sri Lanka	1	1	1	1	1	1	1	1	1	0	7	2
24 Taiwan	1	1	1	1	1	1	1	1	1	1	9	3
25 Thailand	1	1	1	1	1	1	1	1	1	1	8	3
26 Turkey	1	1	1	1	1	1	1	1	1	1	8	3
27 Venezuela	1	1	1	1	1	1	1	1	0	0	6	2

* In cases where a given stock market's website did not have information on a certain sub-component, Wilshire used the Euromoney Guide to World Equity Markets 2002 as the source.

** 0 = not required or source does not specifically enumerate; 1 = required.

*** Total Score = sum of 9 sub-components.

**** Wilshire Score based on Total Score.

Factor 3: Productive Labor Practices

Source: Verite

	(3a) ILO Convention Ratification*	(3b) Laws*	(3c) Institutional Capacity*	(3d) Effectiveness of Implementation*	(3e) Contract Labor*	Total	Wilshire Score***	Wilshire Score
1 Argentina	4.0	9.3	2.8	13.5	0	29.6	3	3
2 Brazil	3.5	9.1	2.8	9.8	0	25.2	2	2
3 Chile	4.0	6.4	2.8	16.2	0	29.4	3	3
4 China	1.5	7.1	1.6	5.7	0	15.8	1	1
5 Colombia	3.5	7.6	0.4	11.9	0	23.3	2	2
6 Czech Republic	3.5	8.5	4.4	17.6	0	33.9	3	3
7 Egypt	4.0	6.6	0.4	8.2	0	19.2	1	1
8 Hungary	4.0	9.2	4.4	18.7	0	36.3	3	3
9 India	2.0	7.8	1.2	5.0	0	15.9	1	1
10 Indonesia	4.0	8.4	0.4	4.9	0	17.7	1	1
11 Israel	3.5	8.8	2.4	16.5	-1	30.1	3	3
12 Jordan	3.5	7.9	2.0	12.4	-1	24.8	2	2
13 Malaysia	2.5	4.8	0.4	11.2	-1	17.9	1	1
14 Mexico	3.0	8.7	2.4	8.2	-1	21.3	1	2
15 Morocco	3.5	5.9	2.4	9.3	0	21.0	1	1
16 Pakistan	3.5	4.6	0.8	6.0	0	14.8	1	1
17 Peru	4.0	7.3	2.8	12.4	0	26.4	2	2
18 Philippines	3.5	8.2	2.8	9.7	0	24.2	2	2
19 Poland	4.0	8.2	2.8	17.7	0	32.7	3	3
20 Russia	4.0	8.4	0.4	7.1	0	19.9	1	1
21 South Africa	4.0	9.1	2.8	14.6	-1	29.4	3	3
22 South Korea	2.0	8.8	2.8	16.7	-1	29.3	3	3
23 Sri Lanka	4.0	6.0	2.4	10.2	0	22.6	2	1
24 Taiwan	NA***	8.6	2.8	15.4	-1	25.8	2	2
25 Thailand	2.0	8.1	2.4	9.6	-1	21.1	1	2
26 Turkey	4.0	7.4	2.0	10.6	0	24.0	2	2
27 Venezuela	3.5	8.6	2.4	10.9	0	25.5	2	2

* Higher score = more productive labor practices.

** Total Score = sum of 4 sub-factor scores and a deduction factor; Total Score is out of 40; 10% weighting to ILO Convention Ratification, 25% weighting to Laws, 15% weighting to Institutional Capacity, and 50% weighting to Effectiveness of Implementation. Contract Labor reflects a one-point deduction if a country does not extend labor protections to foreign contract workers.

*** Taiwan is not eligible to ratify ILO conventions; not a member of U.N.; score based on 36 possible points.
**** Wilshire Score based on Total Score.

MARKET FACTORS

Factor 4: Market Liquidity and Volatility

	(4a)	(4b)	(4c)	(4d)	(4e)	(4f)
	Market Cap Score	Change in Mkt Cap Score	Avg Monthly Value Score	Growth in Listed Companies Score	Market Volatility Score	Return/Risk Ratio Score
1 Argentina	3	3	1	1	1	1
2 Brazil	3	1	1	1	1	2
3 Chile	2	1	1	1	3	1
4 China	3	3	2	3	2	3
5 Colombia	1	1	1	1	2	1
6 Czech Republic	1	2	1	1	2	3
7 Egypt	2	2	1	3	2	2
8 Hungary	1	1	1	1	2	8
9 India	3	2	3	1	3	3
10 Indonesia	2	2	1	2	1	10
11 Israel	2	2	3	1	2	12
12 Jordan	1	2	1	2	3	3
13 Malaysia	3	2	1	1	3	3
14 Mexico	3	1	1	1	3	12
15 Morocco	1	1	1	1	1	9
16 Pakistan	1	1	1	1	2	1
17 Peru	1	1	1	1	3	10
18 Philippines	2	2	1	1	2	10
19 Poland	2	3	1	1	2	13
20 Russia	3	1	1	1	1	10
21 South Africa	3	1	1	1	3	12
22 South Korea	3	3	3	3	3	17
23 Sri Lanka	1	1	1	1	2	8
24 Taiwan	3	3	3	3	3	14
25 Thailand	2	3	2	2	1	13
26 Turkey	2	1	1	2	2	11
27 Venezuela	1	1	1	1	2	7

* Total Score = sum of 6 sub-factor scores.

** Wilshire Score based on Total Score.

Factor 4A: Market Capitalization

Source: S&P Global Stock Markets Factbook 2003

		Mkt Cap (\$ mil)	Wilshire Score*	Wilshire Score
1	Argentina	103434	3	3
2	Brazil	123807	3	3
3	Chile	47584	2	2
4	China	463080	3	3
5	Colombia	9664	1	1
6	Czech Republic	15893	1	1
7	Egypt	26094	2	2
8	Hungary	13110	1	3
9	India	131011	3	3
10	Indonesia	29991	2	2
11	Israel	45371	2	2
12	Jordan	7087	1	1
13	Malaysia	123872	3	3
14	Mexico	103137	3	3
15	Morocco	8591	1	1
16	Pakistan	10200	1	1
17	Peru	13363	1	1
18	Philippines	39021	2	2
19	Poland	28750	2	2
20	Russia	124198	3	2
21	South Africa	184622	3	3
22	South Korea	249638	3	3
23	Sri Lanka	1681	1	1
24	Taiwan	261474	3	3
25	Thailand	46084	2	2
26	Turkey	33958	2	2
27	Venezuela	3962	1	1

* Wilshire Score based on 2002 Mkt Cap.

Factor 4B: Change in Market Capitalization

Source: S&P Global Stock Markets Factbook 2003

	2002	Mkt Cap (\$ mil)	1997	Mkt Cap (\$ mil)	5-year % Change in Mkt Cap	Wilshire Score*	Wilshire Score
	103434	59252	1997	74.6%	3	3	3
1 Argentina	123807	255478		-51.5%	1	1	1
2 Brazil	47584	72046		-34.0%	1	1	1
3 Chile	463080	206366		124.4%	3	3	3
4 China	9664	19530		-50.5%	1	1	1
5 Colombia	15893	12786		24.3%	2	1	1
6 Czech Republic	26094	20830		25.3%	2	3	3
7 Egypt	13110	14975		-12.5%	1	3	3
8 Hungary	131011	128466		2.0%	2	1	1
9 India	29991	29105		3.0%	2	1	1
10 Indonesia	45371	45268		0.2%	2	3	3
11 Israel	7087	5446		30.1%	2	2	2
12 Jordan	123872	93608		32.3%	2	1	1
13 Malaysia	103137	156595		-34.1%	1	2	2
14 Mexico	8591	12177		-29.4%	1	2	2
15 Morocco	10200	10966		-7.0%	1	1	1
16 Pakistan	13363	17586		-24.0%	1	1	1
17 Peru	39021	31361		24.4%	2	1	1
18 Philippines	28750	12135		136.9%	3	3	3
19 Poland	124198	128207		-3.1%	1	3	3
20 Russia	184622	232069		-20.4%	1	1	1
21 South Africa	249638	46052		442.1%	3	3	3
22 South Korea	1681	2096		-19.8%	1	1	1
23 Sri Lanka	261474	287813		-9.2%	1	2	2
24 Taiwan	46084	23538		95.8%	3	1	1
25 Thailand	33958	61090		-44.4%	1	3	3
26 Turkey	3962	14581		-72.8%	1	1	1
27 Venezuela							

* Wilshire Score based on 5-year % Change in Mkt Cap.

Factor 4C: Average Monthly Trading Value

Source: S&P Global Stock Markets Factbook 2003

		Avg Monthly Trading Value (\$ mil)	Mkt Cap (\$mil)	2002	Avg Monthly Trading Value as % of Mkt Cap	Wilshire Score*	2003	Wilshire Score
1	Argentina	113	103434	0.1%	1	1		
2	Brazil	4017	123807	3.2%	1	1		
3	Chile	260	47584	0.5%	1	1		
4	China	27781	463080	6.0%	2	2		
5	Colombia	23	9664	0.2%	1	1		
6	Czech Republic	507	15893	3.2%	1	1		
7	Egypt	213	26094	0.8%	1	1		
8	Hungary	495	13110	3.8%	1	1		
9	India	16427	131011	12.5%	3	3		
10	Indonesia	1087	29991	3.6%	1	1		
11	Israel	4604	45371	10.1%	3	1		
12	Jordan	112	7087	1.6%	1	1		
13	Malaysia	2302	123872	1.9%	1	1		
14	Mexico	2311	103137	2.2%	1	1		
15	Morocco	49	8591	0.6%	1	1		
16	Pakistan	2169	10200	21.3%	3	3		
17	Peru	94	13363	0.7%	1	1		
18	Philippines	259	39021	0.7%	1	1		
19	Poland	487	28750	1.7%	1	1		
20	Russia	3011	124198	2.4%	1	1		
21	South Africa	6569	184622	3.6%	1	1		
22	South Korea	65310	249638	26.2%	3	3		
23	Sri Lanka	27	1681	1.6%	1	1		
24	Taiwan	52661	261474	20.1%	3	3		
25	Thailand	3968	46084	8.6%	2	2		
26	Turkey	5889	33958	17.3%	3	3		
27	Venezuela	9	3962	0.2%	1	1		

* Wilshire Score based on Avg Monthly Trading Value as % of Mkt Cap.

Factor 4D: Growth in Listed Companies

Source: S&P Global Stock Markets Factbook 2003

		2002 <u>Listed Companies</u>	1997 <u>Listed Companies</u>	5-year % Change in Listed Companies	Wilshire Score*	2003 <u>Wilshire Score</u>
1	Argentina	83	136	-39.0%	1	1
2	Brazil	399	536	-25.6%	1	1
3	Chile	254	295	-13.9%	1	1
4	China	1235	764	61.6%	3	3
5	Colombia	114	189	-39.7%	1	1
6	Czech Republic	78	276	-71.7%	1	1
7	Egypt	1148	654	75.5%	3	3
8	Hungary	48	49	-2.0%	1	3
9	India	5650	5843	-3.3%	1	1
10	Indonesia	331	282	17.4%	2	3
11	Israel	615	640	-3.9%	1	1
12	Jordan	158	139	13.7%	2	3
13	Malaysia	865	708	22.2%	3	3
14	Mexico	166	198	-16.2%	1	1
15	Morocco	55	49	12.2%	2	2
16	Pakistan	712	781	-8.8%	1	1
17	Peru	202	248	-18.5%	1	1
18	Philippines	235	221	6.3%	2	2
19	Poland	216	143	51.0%	3	3
20	Russia	196	208	-5.8%	1	3
21	South Africa	450	642	-29.9%	1	1
22	South Korea	1526	1135	34.4%	3	3
23	Sri Lanka	238	239	-0.4%	1	2
24	Taiwan	638	404	57.9%	3	3
25	Thailand	466	431	8.1%	2	1
26	Turkey	288	258	11.6%	2	3
27	Venezuela	59	91	-35.2%	1	1

* Wilshire Score based on 5-year % Change in Listed Companies.

Factor 4E: Market Volatility

Source: Wilshire Compass (MSCI Indices)

		Risk*	Score**	Wilshire Score*	Wilshire Score**	2003
1	Argentina	46.7%	1	1	1	
2	Brazil	46.0%	1	1	1	
3	Chile	22.6%	3	3	3	
4	China	38.4%	2	1	1	
5	Colombia	35.2%	2	2	2	
6	Czech Republic	31.8%	2	2	2	
7	Egypt	30.9%	2	3	3	
8	Hungary	30.7%	2	2	2	
9	India	31.5%	2	2	2	
10	Indonesia	49.9%	1	1	1	
11	Israel	32.5%	2	2	2	
12	Jordan	13.8%	3	3	3	
13	Malaysia	30.4%	2	1	1	
14	Mexico	27.5%	3	2	2	
15	Morocco	16.4%	3	3	3	
16	Pakistan	42.4%	2	1	1	
17	Peru	22.8%	3	3	3	
18	Philippines	30.9%	2	2	2	
19	Poland	36.3%	2	2	2	
20	Russia	52.4%	1	1	1	
21	South Africa	25.4%	3	2	2	
22	South Korea	40.8%	2	1	1	
23	Sri Lanka	43.3%	2	2	2	
24	Taiwan	35.2%	2	2	2	
25	Thailand	45.2%	1	1	1	
26	Turkey	72.5%	1	1	1	
27	Venezuela	50.6%	1	1	1	

* Risk as measured by standard deviation of return on a US dollar basis over the five-year period ended December 31, 2003.

** Wilshire Score based on Risk.

Factor 4F: Return/Risk Ratio

Source: Wilshire Compass (MSCI Indices)

		Return	Risk*	Return/Risk Ratio	Wilshire Score**	Wilshire Score
1	Argentina	-3.9%	46.7%	-0.08	1	1
2	Brazil	12.9%	46.0%	0.28	2	1
3	Chile	11.1%	22.6%	0.49	3	1
4	China	-0.9%	38.4%	-0.02	1	1
5	Colombia	9.8%	35.2%	0.28	2	1
6	Czech Republic	20.3%	31.8%	0.64	3	3
7	Egypt	4.0%	30.9%	0.13	2	1
8	Hungary	5.1%	30.7%	0.17	2	1
9	India	18.0%	31.5%	0.57	3	2
10	Indonesia	11.4%	49.9%	0.23	2	1
11	Israel	8.8%	32.5%	0.27	2	1
12	Jordan	12.6%	13.8%	0.91	3	2
13	Malaysia	18.8%	30.4%	0.62	3	3
14	Mexico	14.4%	27.5%	0.52	3	1
15	Morocco	-4.0%	16.4%	-0.25	1	1
16	Pakistan	29.8%	42.4%	0.70	3	2
17	Peru	22.5%	22.8%	0.99	3	1
18	Philippines	-14.2%	30.9%	-0.46	1	1
19	Poland	4.7%	36.3%	0.13	2	1
20	Russia	50.4%	52.4%	0.96	3	1
21	South Africa	15.0%	25.4%	0.59	3	2
22	South Korea	16.3%	40.8%	0.40	3	3
23	Sri Lanka	9.6%	43.3%	0.22	2	1
24	Taiwan	0.0%	35.2%	0.00	2	1
25	Thailand	16.1%	45.2%	0.36	3	1
26	Turkey	13.4%	72.5%	0.18	2	1
27	Venezuela	4.9%	50.6%	0.10	2	1

* Risk as measured by standard deviation of return on a US dollar basis over the five-year period ended December 31, 2003.

** Wilshire Score based on Return/Risk Ratio.

Factor 5: Market Regulation/Legal System/Investor Protection

	(5a) Adequacy of Financial Regulation Score	(5b) Creditors' Rights Score	(5c) Shareholders' Rights Score	Total Score*	Wilshire Score**	Wilshire Score*
1 Argentina	2	2	2	6	2	3
2 Brazil	1	2	3	6	2	3
3 Chile	1	2	3	6	2	3
4 China	1	2	2	5	2	2
5 Colombia	1	2	2	5	2	2
6 Czech Republic	2	1	2	5	2	1
7 Egypt	1	1	2	4	1	1
8 Hungary	3	1	2	6	2	2
9 India	1	3	3	7	3	3
10 Indonesia	1	3	2	6	2	2
11 Israel	3	3	2	8	3	3
12 Jordan	1	1	2	4	1	2
13 Malaysia	1	3	2	6	2	3
14 Mexico	1	1	3	5	2	2
15 Morocco	1	3	2	6	2	2
16 Pakistan	1	3	2	6	2	2
17 Peru	1	2	2	5	2	2
18 Philippines	1	1	2	4	1	1
19 Poland	3	1	3	7	3	2
20 Russia	1	1	3	5	2	2
21 South Africa	1	3	2	6	2	3
22 South Korea	2	3	3	8	3	3
23 Sri Lanka	1	2	2	5	2	2
24 Taiwan	1	3	3	7	3	3
25 Thailand	1	3	2	6	2	2
26 Turkey	1	1	2	4	1	1
27 Venezuela	1	1	1	1	1	1

* Total Score = sum of 3 sub-factor scores.

** Wilshire Score based on Total Score.

Factor 5A: Adequacy of Financial Regulation
Source: eStandards Forum

		Banking Supervision*	Banking Supervision Score	Securities Regulation*	Securities Regulation Score	Total Score**	Wilshire Score***	Wilshire Score
1	Argentina	CP	3	EN	2	5	2	3
2	Brazil	NA	1	NA	1	2	1	2
3	Chile	CP	3	NA	1	4	1	3
4	China	NA	1	NA	1	2	1	1
5	Colombia	NA	1	NA	1	2	1	1
6	Czech Republic	CP	3	EN	2	5	2	1
7	Egypt	NA	1	NA	1	2	1	1
8	Hungary	CP	3	CP	3	6	3	2
9	India	EN	2	NC	1	3	1	2
10	Indonesia	ID	2	NA	1	3	1	1
11	Israel	CP	3	CP	3	6	3	3
12	Jordan	NA	1	ID	2	3	1	2
13	Malaysia	NA	1	ID	2	3	1	2
14	Mexico	ID	2	ID	2	4	1	1
15	Morocco	NA	1	NA	1	2	1	1
16	Pakistan	NA	1	NA	1	2	1	1
17	Peru	NA	1	NA	1	2	1	2
18	Philippines	EN	2	EN	2	4	1	1
19	Poland	CP	3	CP	3	6	3	2
20	Russia	EN	2	ID	2	4	1	1
21	South Africa	CP	3	NA	1	4	1	3
22	South Korea	EN	2	CP	3	5	2	1
23	Sri Lanka	EN	2	NA	1	3	1	1
24	Taiwan	NA	1	NA	1	2	1	2
25	Thailand	NA	1	NA	1	2	1	1
26	Turkey	ID	2	ID	2	4	1	1
27	Venezuela	NA	1	NA	1	2	1	1

* FC = Full Compliance; CP = Compliance in Progress; EN = Enacted; ID = Intent Declared; NC = No Compliance; NA = No Assessment Available.

** Total Score = sum of two sub-component scores.

*** Wilshire Score based on Total Score.

Factor 5B: Creditors' Rights

Source: Oxford Analytica

	Creditor Rights Index*	Wilshire Score**	Wilshire Score
1 Argentina	2	2	2
2 Brazil	2	2	2
3 Chile	2	2	2
4 China	2	2	2
5 Colombia	2	2	2
6 Czech Republic	0	1	1
7 Egypt	1	1	1
8 Hungary	1	1	1
9 India	3	3	3
10 Indonesia	4	3	3
11 Israel	3	3	3
12 Jordan	0	1	1
13 Malaysia	3	3	3
14 Mexico	1	1	1
15 Morocco	3	3	3
16 Pakistan	3	3	3
17 Peru	2	2	2
18 Philippines	1	1	1
19 Poland	0	1	1
20 Russia	1	1	1
21 South Africa	3	3	2
22 South Korea	4	3	3
23 Sri Lanka	2	2	2
24 Taiwan	3	3	3
25 Thailand	3	3	3
26 Turkey	1	1	1
27 Venezuela	0	0	0

* 0 = weaker rights; 4 = stronger rights.

** Wilshire Score based on Creditor Rights Index.

Factor 5C: Shareholders' Rights

Source: Oxford Analytica

	Shareholder Rights Index*	Wilshire Score**	Wilshire Score
1 Argentina	4	2	2
2 Brazil	6	3	3
3 Chile	6	3	3
4 China	4	2	2
5 Colombia	3	2	2
6 Czech Republic	4	2	2
7 Egypt	3	2	2
8 Hungary	3	2	2
9 India	6	3	2
10 Indonesia	5	2	2
11 Israel	4	2	2
12 Jordan	3	2	2
13 Malaysia	5	2	2
14 Mexico	6	3	3
15 Morocco	4	2	2
16 Pakistan	5	2	2
17 Peru	5	2	2
18 Philippines	5	2	2
19 Poland	6	3	3
20 Russia	6	3	3
21 South Africa	5	2	2
22 South Korea	7	3	3
23 Sri Lanka	3	2	2
24 Taiwan	6	3	3
25 Thailand	4	2	2
26 Turkey	5	2	2
27 Venezuela	1	1	1

* 0 = weaker rights; 7 = stronger rights.

** Wilshire Score based on Shareholder Rights Index.

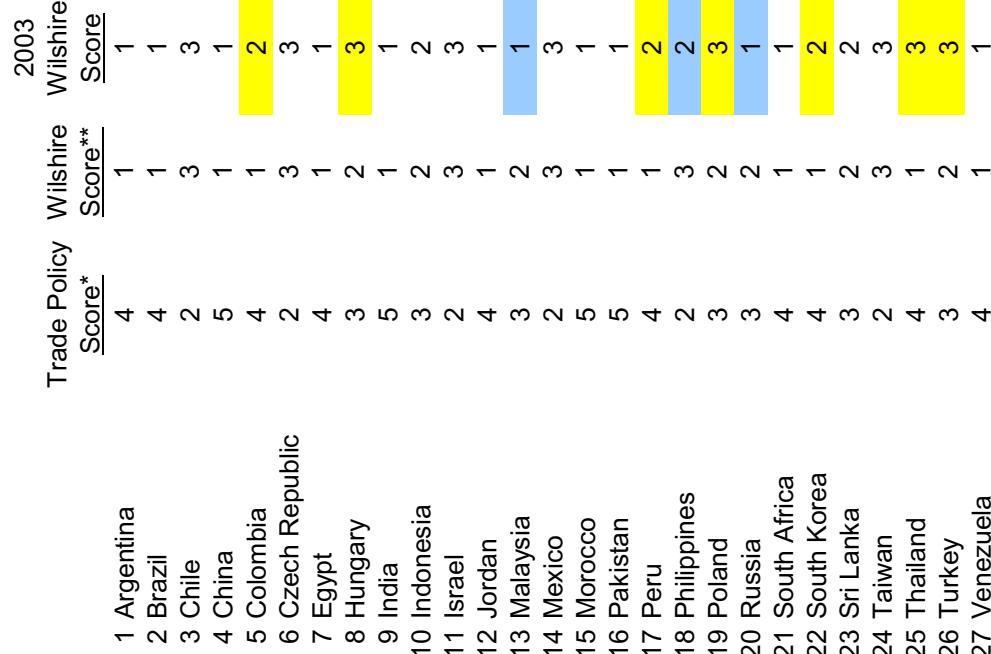
Factor 6: Capital Market Openness

	(6a) Trade Policy Score	(6b) Foreign Investment Score	(6c) Banking/ Finance Score	(6d) Stock Market Openness Score	Total Score*	Wilshire Score**	2003 Wilshire Score
1 Argentina	1	2	1	3	7	1	3
2 Brazil	1	2	2	2	7	1	1
3 Chile	3	3	3	3	12	3	3
4 China	1	1	1	1	4	1	1
5 Colombia	1	3	3	3	10	3	3
6 Czech Republic	3	3	3	3	12	3	3
7 Egypt	1	2	1	3	7	1	1
8 Hungary	2	3	3	3	11	3	3
9 India	1	2	1	1	5	1	1
10 Indonesia	2	1	1	3	7	2	2
11 Israel	3	3	2	3	11	3	3
12 Jordan	1	3	1	3	10	3	3
13 Malaysia	2	1	3	3	5	1	1
14 Mexico	3	2	2	3	9	2	2
15 Morocco	1	3	2	3	7	1	2
16 Pakistan	1	2	3	3	8	2	1
17 Peru	1	3	3	3	10	3	3
18 Philippines	3	2	2	1	7	1	1
19 Poland	2	2	2	1	8	2	2
20 Russia	2	2	2	1	10	3	2
21 South Africa	1	3	3	3	8	2	2
22 South Korea	1	3	2	2	7	2	2
23 Sri Lanka	2	2	2	2	6	1	2
24 Taiwan	3	2	2	2	9	2	2
25 Thailand	1	2	2	2	3	1	1
26 Turkey	2	2	2	1	3	2	2
27 Venezuela	1				6	1	1

* Total Score = sum of 4 sub-factor scores.

** Wilshire Score based on Total Score.

Factor 6A: Trade Policy
 Source: The Heritage Foundations Index of Economic Freedom (WSJ)



* 1 = policies most conducive to economic freedom; 5 = policies least conducive to economic freedom.

** Wilshire Score based on Trade Policy Score.

Factor 6B: Foreign Investment

Source: The Heritage Foundations Index of Economic Freedom (WSJ)

	Foreign Investment Score*	Wilshire Score**	Wilshire Score
1 Argentina	3	2	3
2 Brazil	3	2	2
3 Chile	2	3	3
4 China	4	1	1
5 Colombia	2	3	3
6 Czech Republic	2	3	3
7 Egypt	3	2	2
8 Hungary	2	3	3
9 India	3	2	2
10 Indonesia	4	1	2
11 Israel	2	3	3
12 Jordan	2	3	3
13 Malaysia	4	1	1
14 Mexico	3	2	2
15 Morocco	2	3	3
16 Pakistan	3	2	2
17 Peru	2	3	3
18 Philippines	3	2	2
19 Poland	3	2	3
20 Russia	3	2	2
21 South Africa	2	3	3
22 South Korea	2	3	3
23 Sri Lanka	3	2	2
24 Taiwan	3	2	2
25 Thailand	3	2	3
26 Turkey	3	2	2
27 Venezuela	5	1	2

* 1 = policies most conducive to economic freedom; 5 = policies least conducive to economic freedom.

** Wilshire Score based on Foreign Investment Score.

Factor 6C: Banking/Finance

Source: The Heritage Foundations Index of Economic Freedom (WSJ)

	Banking/ Finance Score*	Wilshire Score**	Wilshire Score
1 Argentina	4	1	3
2 Brazil	3	2	2
3 Chile	2	3	3
4 China	4	1	1
5 Colombia	2	3	3
6 Czech Republic	1	3	3
7 Egypt	4	1	1
8 Hungary	2	3	3
9 India	4	1	1
10 Indonesia	4	1	1
11 Israel	3	2	2
12 Jordan	2	3	3
13 Malaysia	4	1	1
14 Mexico	2	3	3
15 Morocco	3	2	2
16 Pakistan	4	1	2
17 Peru	2	3	3
18 Philippines	3	2	2
19 Poland	2	3	3
20 Russia	4	1	1
21 South Africa	2	3	2
22 South Korea	3	2	2
23 Sri Lanka	3	2	2
24 Taiwan	3	2	3
25 Thailand	3	2	2
26 Turkey	3	2	2
27 Venezuela	4	1	2

* 1 = policies most conducive to economic freedom; 5 = policies least conducive to economic freedom.

** Wilshire Score based on Banking/Finance Score.

Factor 6D: Stock Market Openness

Source: S&P Global Stock Markets Factbook 2003

		Description - Foreign Investment Ceiling	Wilshire Score*	Wilshire Score	2003
1 Argentina	100% in general	100% for common stock in general; 100% for common stock in general, except 0% for banks;	3	3	
2 Brazil	100% preferred stocks in general; 49% for cable television and 20% for highway cargo transport, 30% for newspaper, radio and TV broadcasting companies; 0% for valuables transport, and 50% minus one share for Petrolras. Investment in rural properties allowed only upon prior authorization for both preferred and common stocks. Investment in lottery services, medical assistance and nuclear mineral-related activities not allowed for either preferred or common stocks.	2	2		
3 Chile	100% in general	100% for B- and H-class shares and red chip stocks; 20% in aggregate and 10% for a single entity for A-class shares	3	3	
4 China	100% for B- and H-class shares and red chip stocks; 20% in aggregate and 10% for a single entity for A-class shares	2	2		
5 Colombia	100% in general	100% in general	3	2	
6 Czech Republic	100% in general	100% in general	3	3	
7 Egypt	100% in general	100% in general	3	3	
8 Hungary	100% in general	100% in general	3	3	
9 India	24% in general, 20% for banks; up to 49% with board of directors approval	1	1	1	
10 Indonesia	100% in general	100% in general	3	3	
11 Israel	100% in general	100% in general	3	3	
12 Jordan	100% in general	30% in general; over 30% for a few sectors; shipping 70%; telecommunications 61%; hotels 51%; insurance 51%; banking 30%; and stockbroking 49%; forwarding agencies 49%. Some restrictions at the corporate and sector level per the Foreign Investment Committee Guidelines	1	1	
13 Malaysia	40% in general; in some cases can only own B class shares. Some restrictions in certain sectors such as mass media	1	1	1	
14 Mexico	100% in general	100% in general	3	2	
15 Morocco	100% in general	100% in general	3	3	
16 Pakistan	100% in general	100% in general	3	3	
17 Peru	100% in general	40% in general; in some cases can only own B class shares. Some restrictions in certain sectors such as mass media	3	3	
18 Philippines	100% in general	100% in general	2	2	
19 Poland	100% in general; 9% for Gazprom, 25% for UES; 8% for banks or central bank approval	2	2	2	
20 Russia	100% in general	100% in general	3	3	
21 South Africa	100% in general; telecommunications 49%; home shopping 33%; 30% for Korea Gas Corp; 40% for KEPCO; 49.99% for Korean Air; and 0% for Seoul Broadcasting	2	2	2	
22 South Korea	100% in general; 60% for banks, 90% for insurance companies and non-deposit taking finance companies; 40% for shipping agency services; 40% for mining companies; 40% for timber based industries; 49% for plantations	2	2	2	
23 Sri Lanka	Limits to the maximum holdings of total shares outstanding by foreigners at both the individual and aggregated level. Maximum investment for Overseas Chinese and foreign institutional investor is US\$50 million. US\$5 million for each Overseas Chinese and foreign individuals and US\$3 billion for each Qualified Foreign Institutional Investor. Sector foreign investment ceilings of 50% for mining; 0% for television broadcasts; 33.3% for aviation; 50% for marine; 20% for telecommunications	1	1	1	
24 Taiwan	49% in general; some restrictions by sector according to the Alien Business Act Law	1	1	1	
25 Thailand	100% in general	100% in general	3	3	
26 Turkey	100% in general	100% in general	3	3	
27 Venezuela	100% in general	100% in general	3	3	

* 1 = lower level of market openness to foreigners; 3 = higher level of market openness to foreigners.

Factor 7: Settlement Proficiency/Transaction Costs

	(7a)	(7b)	Settlement Proficiency Score	Transaction Costs Score	Total Score*	Wilshire Score**	Wilshire Score*	Wilshire Score**	Wilshire Score*	Wilshire Score**	Wilshire Score*
1 Argentina	2	2	2	2	4	2	2	2	2	2	2
2 Brazil	3	3	3	3	6	3	3	3	3	3	3
3 Chile	3	1	1	4	4	2	2	2	2	2	2
4 China	3	1	4	4	2	2	2	2	2	2	2
5 Colombia	3	1	4	4	2	2	2	2	2	2	2
6 Czech Republic	2	2	2	5	3	3	3	3	3	3	3
7 Egypt	3	2	2	3	1	1	1	1	1	1	1
8 Hungary	1	2	3	3	1	1	1	1	1	1	1
9 India	1	2	3	3	1	1	1	1	1	1	1
10 Indonesia	2	1	3	5	3	3	3	3	3	3	3
11 Israel	3	2	3	6	3	3	3	3	3	3	3
12 Jordan	1	2	3	5	3	1	1	1	1	1	1
13 Malaysia	3	2	3	6	3	3	3	3	3	3	3
14 Mexico	3	3	3	6	3	3	3	3	3	3	3
15 Morocco	3	3	3	5	4	2	2	2	2	2	2
16 Pakistan	3	2	2	4	2	3	3	3	3	3	3
17 Peru	2	2	2	5	3	1	2	2	2	2	2
18 Philippines	3	1	2	4	2	2	2	2	2	2	2
19 Poland	3	2	2	5	3	1	1	1	1	1	1
20 Russia	1	2	2	3	1	1	1	1	1	1	1
21 South Africa	1	2	2	3	1	2	2	2	2	2	2
22 South Korea	3	1	2	4	3	1	1	1	1	1	1
23 Sri Lanka	1	2	1	3	1	1	1	1	1	1	1
24 Taiwan	3	1	1	4	2	2	2	2	2	2	2
25 Thailand	3	1	1	4	2	2	2	2	2	2	2
26 Turkey	3	3	3	6	3	3	3	3	3	3	3
27 Venezuela	3	2	2	5	3	1	1	1	1	1	1

* Total Score = sum of 2 sub-factor scores.

** Wilshire Score based on Total Score.

Factor 7A: Settlement Proficiency

Source: Societe Generale's Guide to Global Stock Exchanges & Lehman Brothers

		Trading Technology Score*	Trading Technology Description	Days to Settle Score**	Days to Settle Trades (T+) Description	Total Score***	Wilshire Score****
				3	3	5	2
1 Argentina		2	Partially Automated - Two systems: Open outcry/Screen-based system (SINAC) and Continuous Trading Session	3	3	6	3
2 Brazil		3	Fully Automated - Mega Bolsa trading system integrates open outcry and electronic, remote terminal trading	3	3	6	3
3 Chile		3	Fully Automated - Electronic order-driven matching system (Telepregon)	3	2	6	3
4 China		3	Fully Automated - Computerized order matching system	3	3	6	3
5 Colombia		3	Fully Automated - Order-driven electronic, screen-based system (WINSET)	3	3	6	3
6 Czech Republic		2	Partially Automated - Market-making system (SPAD), automatic trading, and block trading	3	3	5	2
7 Egypt		3	Fully Automated - Electronic order-driven trading system	3	2 to 3	6	3
8 Hungary		3	Fully Automated - Electronic order-driven trading system	1	5	4	1
9 India		3	Fully Automated - BSE on-line trading (BOLT) system and National Exchange for Automated Trading (NEAT)	1	5	4	1
10 Indonesia		3	Fully Automated - Jakarta Automated Trading System (JATS)	2	4	5	2
11 Israel		3	Fully Automated - Tel Aviv Continuous Trading (TACT)	3	1 to 3	6	3
12 Jordan		3	Fully Automated - Automated, order-driven system	1	6	4	1
13 Malaysia		3	Fully Automated - Continuous auction screen based system (SCORE/WinSCORE)	3	3	6	3
14 Mexico		3	Fully Automated - Electronic board (BMV-SENTRA Capitals)	3	2	6	3
15 Morocco		3	Fully Automated - Electronic, order-driven system	3	3	6	3
16 Pakistan		3	Fully Automated - Karachi Automated Trading System (KATS)	3	3	6	3
17 Peru		2	Partially Automated - Electronic Trading System (ELEX) and open-outcry	3	3	5	2
18 Philippines		3	Fully Automated - Screen-based system (MAKTRADE)	3	3	6	3
19 Poland		3	Fully Automated - WARsaw Stock Exchange Trading System (WARSET)	3	3	6	3
20 Russia		3	Fully Automated - RTS Trading System	1	5 to 15	4	1
21 South Africa		3	Fully Automated - SETS trading engine	1	5	4	1
22 South Korea		3	Fully Automated - Stock Order Turnaround System (SOTS) and Stock Market Automated Trading System (SMATS)	3	2	6	3
23 Sri Lanka		3	Fully Automated - Continuous auction screen based system	1	6	4	1
24 Taiwan		3	Fully Automated - Fully Automated Trading System (FAST)	3	2	6	3
25 Thailand		3	Fully Automated - Continuous auction screen based system (ASSET)	3	3	6	3
26 Turkey		3	Fully Automated - Multiple price-continuous auction system	3	2	6	3
27 Venezuela		3	Fully Automated - Screen-based trading system (SIBE)	3	3	6	3

* 1 = not automated; 2 = partially automated; 3 = fully automated.

** 1 = slower trade settlement; 3 = quicker trade settlement.

*** Total Score = sum of two sub-component scores.

**** Wilshire Score based on Total Score.

Factor 7B: Transaction Costs

Source: S&P Global Stock Markets Factbook 2003

	Capital Gains Tax Score*	Capital Gains Tax	Dividend Tax Score*	Dividend Tax	Stamp Duty Score*	Stamp Duty	Other Charges Score*	Other Charges Description**	Total Score***	Wilshire Score****	Wilshire Score
1 Argentina	3	0%	3	0%	3	0%	1	0.035% exchange fee; 0.06% securities market fee; 21% VAT on broker commission	10	2	2
2 Brazil	3	0%	3	0%	3	0%	2	0.035% transaction and clearing fee		2	
3 Chile	3	0%	1	35%	3	0%	1	0.05%-0.50% exchange fee; 18% VAT on broker commission	11	1	1
4 China	3	0%	1	20%	2	0.2%	2	0.03% trading tax	8	1	1
5 Colombia	2	7%	3	0%	1	1.5% on subcustodian fees	2	0.08% trading fee	8	1	2
6 Czech Republic	3	0%	1	15%	3	0%	3	none		2	
7 Egypt	3	0%	3	0%	2	0.40 EGP per invoice	2	0.0125% bourse levy; 0.0125% settlement fee	10	2	2
8 Hungary	3	0%	1	20%	3	0%	3	none	10	1	3
9 India	2	10%	3	0%	1	0.5% on physical share purchases	3	none	9	2	
10 Indonesia	3	0%	1	20%	3	0%	1	0.12% trading fee		1	
11 Israel	3	0%	1	25%	3	0%	3	none	10	2	2
12 Jordan	3	0%	3	0%	3	0%	1	0.14% exchange fee	10	2	2
13 Malaysia	3	0%	3	0%	3	0%	1	0.10% to maximum of MYR 200	10	2	1
14 Mexico	3	0%	3	0%	3	0%	3	none	12	3	3
15 Morocco	3	0%	2	10%	3	0%	3	none	11	3	3
16 Pakistan	3	0%	2	10%	2	0.01 PKR on deposits; 0.15 PKR on withdrawals	3	none	10	2	3
17 Peru	3	0%	3	0%	3	0%	1	0.0825% Bolsa fee; 0.05% CONSAEV fee; 0.07% Cavalí fee; 18% sales tax applied to sum of brokerage fees and other fees	10	2	2
18 Philippines	2	0.5%	1	15%	1	1.5 PHP per 200 PHP per value	2	0.000917% PCD charge; 0.0009174% SCCP fee	6	1	1
19 Poland	3	0%	1	15%	3	0%	3	none	10	2	2
20 Russia	3	0%	1	15%	3	0%	3	none	10	2	3
21 South Africa	3	0%	3	0%	2	0.25%	2	0.0007% insider trading levy; 0.005% Strate fee	10	2	2
22 South Korea	1	27.5%	1	27.5%	3	0%	1	0.30% trading fee	6	1	1
23 Sri Lanka	3	0%	2	10%	3	0%	1	0.25% trading fee	9	2	
24 Taiwan	3	0%	1	30%	3	0%	1	0.30% trading fee	8	1	1
25 Thailand	1	15%	2	10%	3	0%	2	0.0175% trading fee	8	1	1
26 Turkey	3	0%	2	5.5%	3	0%	3	none	11	3	3
27 Venezuela	3	0%	3	0%	3	0%	1	1% sales tax; 0.096875% VAT	10	2	2

* 1 = higher taxes/costs; 3 = lower taxes/costs.

** Unless otherwise noted, percentages are as of price*shares; VAT = value added tax.

*** Total Score = sum of 4 sub-component scores.

**** Wilshire Score based on Total Score.

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**CalPERS Public Market Equity
Emerging Market Geopolitical and Investibility Factors**

The CalPERS country/company geopolitical and investibility screens are:

1. transparency, including elements of a free press necessary for investors
2. political stability
3. progress towards the development of basic democratic institutions and principles
4. a strong and impartial legal system
5. property and shareholder rights
6. labor practices/harmful child labor
7. corporate social responsibility
8. compliance with the Global Sullivan Principles of Corporate Social Responsibility
9. compliance with the International Labor Organization (ILO) Declaration on Fundamental Principles and Rights at Work
10. market regulation
11. market volatility
12. currency risk
13. liquidity risk
14. repatriation risk
15. market openness to foreign investors
16. government commitment to free market policies
17. legal protection for foreign investors
18. trading and settlement proficiency
19. transaction costs